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An empirical investigation of corporate social reporting in Iran: practices, needs and perceptions

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An Empirical Investigation of Corporate Social Reporting in Iran: Practices, Needs and Perceptions

A thesis submitted in fulfilment of the requirements for the award of the degree
of

Doctor of Philosophy

From

The University of Wollongong

By

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May 2011

Declaration

I hereby certify that this thesis has not been submitted previously as part of the requirements of another degree and that it is the result of my own independent research.

Ali M Yaftian

Acknowledgments

First of all, my thanks go to God who gave me the opportunity, strength and hope to complete this thesis.

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Abstract

A review of corporate social reporting (CSR) literature reveals that this area of accounting has been subject of various investigations in different countries particularly in developed countries. This study examines CSR practices in corporate annual reports and stakeholders' CSR needs and perceptions in Iran.

Two research methodologies have been used to collect and analyse the data. Content analysis was used to examine the extent of CSR disclosures and relationships between disclosure with four corporate characteristics, namely size, profitability, financial leverage and industry type. In this regard, a sample of 103 Iranian listed companies' annual reports were selected and reviewed for their CSR disclosures (i.e. human resources, environmental performance and policies, community activities, energy consumption and customer satisfaction and product quality). A questionnaire survey was also conducted to collect data and to investigate stakeholders' CSR information needs and perceptions. A sum of 333 respondents from six major stakeholder groups, namely academics, auditors, bank loan officers, business managers, stockbrokers and institutional investors participated in this survey.

The results indicated that while all types of CSR information were reported by companies, it was also found human resources disclosure was the most common type of information in annual reports. The company size was the only characteristic that had a statistically significant relationship with the overall level of CSR disclosures. In further analyses by conducting multiple regression for each CSR theme individually, mixed results were found.

In regard to stakeholders' needs and perceptions, the results also indicated that annual reports were perceived as the main source of CSR information. Academics are shown to be the most interested group asking/expecting CSR information about or from companies. Environmental performance and policies information was ranked as the favourite type of CSR information to ask/expect about or from companies. Overall, the respondent groups believed that CSR information is insufficient. The mandatory CSR disclosures which were to be prepared according to the government guidelines was supported by the majority of respondents.

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List of Abbreviations

Aca.	Academics
AccSSC	Accounting Standards Setting Committee (Iranian)
AO	Audit Organisation (Iran)
Aud.	Auditors
AudSSC	Auditing Standards Setting Committee (Iranian)
B.L.O	Bank Loan Officers
Bus.Man.	Business Managers
COM	Community Activities (A CSR theme)
CSH	Consumer Staple and Health Care (Industry classification)
CSP	Customer Satisfaction and Product Quality (A CSR theme)
CSR	Corporate Social Reporting
EGY	Energy Consumption (A CSR theme)
EMA	Energy and Materials (Industry classification)
ENV	Environmental Performance and Policies (A CSR theme)
FIT	Financial, IT and Telecommunications
GICS	Global Industry Classification Standard
HR	Human Resources (A CSR theme)
IACPA	Iranian Association of Certified Accountants
IASB	International Accounting Standards Board
ICD	Industry and Consumer Discretionary (Industry classification)
Inst.Inv.	Institutional Investors
ISO	International Standardization Organization
RDIS	Research Development and Islamic Studies
RAO	Rate of Return on Total Assets
SAC	Statements of Accounting Concepts (Australian)
S.B.	Stockbrokers
SCI	Statistical Centre of Iran
SEO	Securities and Exchange Organisation (Iranian)
TSE	Tehran Stock Exchange

Chapter One

Introduction

1.1 Introduction

This study is concerned with accounting for corporate social reporting (CSR). In the last few decades, CSR has become a popular research topic and has attracted quite a number of scholars around the world to investigate different aspects of CSR (quantity and quality or contents) of developed and developing economies. Deegan (2002, p.283) stated that:

This increase in attention can be demonstrated by the number of academic researchers entering the area, and by the increased focus being applied by governments, professional accounting bodies, industry bodies, and corporations to various related issues.

Indeed, as will be demonstrated later in the thesis, this trend has been growing since the need for a wider corporate accountability was identified.

CSR represents corporate social accounting and has developed in response to a combination of public opinion, investors' behaviour and changes in the corporate self-concept. Disclosures of this sort of information have been made since the early 1970s (Zeghal & Ahmad, 1990, p.38). From the viewpoint of social accounting theories (such as legitimacy theory and stakeholder theory) corporations are social creations and their existence depends on the willingness of society to continue to allow them to operate (O'Donovan, 2002, p.344). Based on this concept of accountability, companies are responsible not only to their shareholders, but also to society as a whole. Cooper (1988, p.192) argues:

...management [company] is accountable to society at large because of the impact corporations can have on the well-being of all members of society whether they deal directly with the corporation or not. This impact on society may be direct, such as pollution, or indirect through relationships between corporations and those who deal with them.

This perception promotes the idea of existence of a tacit social agreement or hidden contract between business and society. The concept of a social contract between business and society suggests that, though the main aim of a business is to make profit, it also has a moral obligation to act in a socially responsible manner (O'Donovan, 2002, p.344). This view asks corporations to accept greater social responsibility for their stewardship of natural resources and other aspects of social life. In other words, corporate socially responsible behaviour is integrated with business objectives. As the field has developed, social responsibility reporting has become more often incorporated into annual reports (Trotman & Bradley, 1981, p.355).

The way in which corporations are being called on to be more accountable for their social responsibility practices is through increased reporting to the public about those activities that have a social and environmental impact (Tilt, 1994, p.49). Meanwhile, one common concern arises from the increased disclosure of corporate social performance and that is the need to establish methods for assessment, verification and disclosure that meet the requirements of both corporations and societies (Zadek, Pruzan, & Evans, 1997).

The concept of a social contract is the main theme on which 'social theories' such as legitimacy theory (Islam, 2009; Deegan, 2002; Deegan & Rankin, 1997; Mathews, 1993; Patten, 1992; Guthrie & Parker, 1989), stakeholder theory (Perrini & Tencati, 2006; Mitchell, Agle & Wood, 1997; Clarkson, 1995; Roberts, 1992; Ullman, 1985), accountability theory (Gray, Kouhy, & Lavers, 1995_b) and political economy theory (Buhr, 1998; Guthrie & Parker, 1990) have been developed in an attempt to explain various aspects of corporate social behaviour. While it has been argued that an accepted theory of social and environmental accounting is still at a developmental stage, such a theory would provide a useful framework for studying corporate social behaviour (Gray, Owen & Adams, 1996, p.x).

CSR practice in Iran is one of several areas that have been left untouched in accounting research. The intention of this study is to initiate exploration of accounting for CSR in Iran. With such an intention, this study explores two primary areas of CSR in Iran. First it focuses on the extent of CSR in annual reports of the sampled listed Iranian companies on the Tehran Stock Exchange (TSE) by using a content analysis method, the examination of CSR in the

annual reports and the variability in the extent of disclosure after controlling for some company characteristics such as size, type of industry, profitability/economic performance and financial leverage. The second primary area of this study is to analyse Iranian stakeholders' CSR information needs and perceptions by conducting a questionnaire survey.

1.2 The Concept and Definition of Corporate Social Reporting

The fundamental problem in the field of CSR has been that there is no generally accepted theory or meaning of CSR that provides a framework or model for the systematic collection, organisation and analysis of corporate data relating to this important concept (Clarkson, 1995, p.92). It is argued that CSR can take a potentially infinite range of forms. It can be designed to fulfil any one or more of a wide range of objectives. CSR is not a systematic, regulated or well-established activity and can be constructed around almost any type of information or with almost any sort of focus (Gray, Owen & Adams, 1996, p.3). Hackston & Milne (1996, p.78) define CSR as “the provision of financial and non-financial information relating to an organisation’s interaction with its physical and social environment, as stated in corporate annual reports or separate social reports”.

The image of a wide range of possible interactions between organisations and societies creates some wider areas of attention in CSR compared to conventional financial reporting. The conventional accounting system, based on double-entry accounting, was established over 500 years ago in an economic system where organisational value was based on monetary value. The

fundamental assumption of this system is that sustainable competitive advantage is derived from how well an organisation measures and manages its financial transactions¹. Within this system (conventional accounting), as stated by Gray, Owen & Adams (1996, p.17) “the purpose of financial accounting is to inform the self-interested decision maker in order that they may maximise their personal wealth and (explicitly or implicitly) thereby ensure the efficiency of the capital market”. With these characteristics, conventional accounting creates a narrow connection between society and organisations. The principle in conventional accounting is that the potential users of the information are financial participants of the entity.

It is argued that many social accounting researchers refer to environmental pressure groups as being a major influence on companies’ decisions to disclose social information (Tilt, 1994, p.47). These groups in the Australian Statements of Accounting Concepts number 2 (SAC2), have been identified as shareholders, lenders, government bodies, media, labour unions, employees, community interest groups and the ‘general public’. Similarly, the Iranian Accounting Standards, in the ‘A Preface to Accounting Standards’, paragraph five refers to shareholders, creditors, government agencies and other interest groups as the users of corporate reports. Within this context Gray, Owen, & Adams (1996, p.3) described social accounting as the combination of:

accounting for different things (i.e. other than accounting strictly for economic events); accounting in different media (i.e. other than accounting in strictly

¹ Milton Friedman (1970) discussed the issue of social responsibility of business entities as “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”.

financial terms); accounting to different individuals or groups (i.e. not necessarily only accounting to the providers of finance); and accounting for different purposes (i.e. not necessarily accounting only to enable the making of decisions whose success would be judged in financial or even cash flow terms.

Though CSR considers a wide range of activities and audiences, it cannot be an open ended agenda for reporting. Gray, Owen, & Adams (1996, p.5) argue that the social accounting literature tends to assume that the reports are prepared about certain areas of activities – typically those which affect the physical environment, human resources, communities and consumers and products. However, this is not an exclusive list. Guthrie & Parker (1990, p.345) suggested that social reporting could serve three major purposes:

- 1) provide a comprehensive view of the organisation and its resources;
- 2) provide a constraint upon socially irresponsible corporate behaviour;
- 3) provide positive motivation for the corporation to act in a socially responsible manner.

Deegan (2002, p.283) looked at CSR from another angle and said:

Within a systems-oriented perspective, the entity is assumed to be influenced by, and in turn to have influence upon, the society in which it operates. Corporate disclosure policies are considered to represent one important means by which management can influence external perceptions about their organisation.

This view is consistent with the Parker (1986, p.72) argument which suggested that CSR serves the purpose of defending the corporation against its critics and

enhancing its public image. From this view point, CSR might be used to anticipate or avoid social pressure. Meanwhile it might also be used in an attempt to boost the corporation's public standing. However, as mentioned earlier, the literature on CSR reveals that there is no universal definition that covers CSR practices (Purushothaman et al., 2000).

This study adopts a combination of the Gray, Owen, & Adams (1996), Hackston & Milne (1996) and Guthrie & Parker (1990) CSR definitions for two reasons. Firstly, this study will assess all CSR disclosures as being disclosures of activities in relation to human resources, environmental performance and policies, community activities, energy consumption, and customer satisfaction and product quality. In this study the overall CSR disclosures will be examined with no distinction between mandatory and voluntary disclosure². Secondly, the selected definitions incorporate the assumptions of the theoretical framework (e.g. legitimacy theory, political economy theory and stakeholder theory) that will be used in this study.

In this study the targeted social disclosures are the five themes adopted from the Trotman & Bradley (1981) study which are defined broadly as follows:

- Human resources: disclosures of the activities by corporations to ensure the well-being of their employees such as health and safety (including disclosure of accident statistics); improvement in

² In Iran there are very few CSR disclosure requirements of any kind. See further discussion under section 4.3.1/4 in chapter 4.

working conditions; the number of disabled employees, and employees' education and training.

- Environmental performance and policies: disclosures of the activities by corporations that would have impacted on the environment such as air, water and soil pollution; taking part in or sponsorship of anti-litter and conservation campaigns and the installation and utilisation of recycling systems for recyclable materials.
- Community activities: disclosures of the activities that corporations participate in for the benefit of the community such as donations to charities; the sponsorship of social and sports activities and aid for natural disaster victims.
- Energy consumption: disclosures of the activities engaged in by corporations to use this resource efficiently and effectively such as efforts to reduce energy consumption.
- Customer satisfaction and product quality: disclosures of activities that corporations are involved in to ensure customer satisfaction or product quality such as receiving International Standardisation Organisation (ISO) qualifications.

Iranian experts who work inside Iran have been consulted with regard to the adoption of these themes. These consultations have been conducted by the researcher through informal interviews with experts such as the general secretaries of two national accounting professional bodies, secretary of the

Accounting Standards Committee and some other members of this committee (a Division in “Audit Organisation”), accounting academics, senior officers of the Environment Department, audit partners, financial executive officers in various companies, stockbrokers and financial advisers. The purpose of this pre-assessment was to find a general understanding of the beliefs of these experts in CSR. As a result, these consultations helped to gain a better understanding of the CSR position within the current Iranian companies’ annual reports context and in particular the usefulness of this type of research.

1.3 Purpose of the Study

In the past, maximisation of wealth for profit organisations was considered as the goal and primary object of corporations (Gary, Owen & Adams, 1996, p.17)³. Therefore, conventional financial reporting needed to focus on the economic results of transactions between two or more entities. According to Hackston & Milne (1995, p.77), corporations can no longer subscribe blindly to the doctrine that the sole social responsibility of corporations is to maximise profit. With improvement in social conditions and rising standards of living, stakeholders are placing increasing pressure on companies to demonstrate their accountability to society (Purushothaman et al., 2000).

A review of the relevant literature reveals that studies of the extent of CSR have been conducted among different countries and in particular developed countries. Recent studies have provided evidence that CSR practices and disclosures in different countries are not necessarily of uniform level and quality

³ See further discussion under section 1.2, p.4.

(Islam, 2009; Haniffa & Cook, 2005; Imam, 2000; Purushothaman et al., 2000; Gray, Kouhy & Lavers, 1995_b; Tilt, 1994; Belkaoui & Karpik, 1989). These studies indicate that in spite of many years of experience, CSR has no unifying paradigm and a framework for adequate disclosure is still not developed (Zeghal & Ahmad, 1990). Consistent with this view, Ullman (1985) critically evaluated prior research in the area of CSR and concluded that several deficiencies existed in the current body of CSR research. His main finding was that there was a lack of a comprehensive CSR theory to explain why corporations were involved in social reporting endeavours. This view was also emphasised by Gray, Kouhy & Lavers (1995_b) and Deegan (2002).

Gray, Kouhy & Lavers (1995_b, p.47) discussed the issue of corporate social reporting as follow:

Although corporate social reporting (CSR) has been the subject of substantial academic accounting research for two decades, the literature does not possess an overall coherence [...]. There are many reasons for this – at least some of which arise as a result of the CSR not sharing many of the core “certainties” of traditional accounting. So for example, CSR is not enshrined in legislation equivalent to Companies Acts; as a result it is neither practised systematically by organisations nor able to claim either universal recognition or universal definition. Indeed, there is little about CSR which is not contestable – and contested. CSR at its broadest may embrace: both self-reporting by organisations and reporting about organisations by third parties; information in the annual report any other form of communication; both public domain and private information; information in any medium (financial, non-financial, quantitative, non-quantitative). It is not restricted necessarily by reference to selected information recipients; and the information deemed to be CSR may, ultimately, embrace any subject.

Iran with a long history has its own unique political, socio-economic and cultural features that could be quite different from other countries in terms of business culture and values⁴. However, these features could provide a good opportunity to investigate CSR in such a country. This study based upon Iran's unique position can add knowledge on how CSR is practiced and expected in a very socio-cultural and economic setting. The present study would be the first study in this field which attempts to follow the initial steps towards introducing corporate reporting practices and understanding firms' stakeholders' CSR information needs and perceptions within an Iranian context⁵. Following this brief introduction to the purpose of this study, the proceeding section provides specific research questions.

1.4 Research Questions

There are two primary areas for this study. Firstly, the aim of this research is to assess the extent of CSR in annual reports of Iranian companies listed on the Tehran Stock Exchange (TSE) and to analyse the association of CSR with some specific characteristics of corporations. This study focuses on the impact that corporations' specific characteristics such as size, profitability, financial leverage and type of industry have on the level of CSR information in annual reports of Iranian listed companies. Secondly, it investigates and analyses stakeholders' needs and concerns about the type, format, importance and the venues of CSR information. In line with such objectives, the research questions are as follows:

⁴ The cultural and other environmental factors specific to Iran will be addressed in chapter 2.

⁵ The main previous attempt in the area of corporate reporting was done by Soheila Mirshekary, in her PhD thesis "An empirical investigation of the quality of disclosure in corporate financial reports in developing countries: The case of Iran".

- 1) To what extent do listed companies in Iran provide different levels of information in their annual reports pertaining to the various social targeted disclosures of CSR?
- 2) Are corporations' characteristics important factors in explaining differences in the extent of disclosure of CSR?
- 3) What are the most prominent variables in explaining any differences or similarities in the amount of CSR information provided?
- 4) Do the Iranian corporate stakeholders receive, read and expect CSR information?
- 5) If so, is the information sufficient, understandable, and credible?
- 6) What is the favourite medium/media CSR information for common stakeholders?
- 7) Should CSR be regulated? If so, by whom?

1.5 Justification of the Study

Although CSR has been the subject of academic research for more than three decades, the CSR literature is mostly dominated by empirical studies in the developed countries of Western Europe, the USA, and Australia (Tsang, 1998, p.624). Even international comparative studies of CSR have mostly focused on analyses of the differences and similarities of CSR practices in these countries (e.g. Ernst & Ernst, 1978; Guthrie & Parker, 1990). However, through review of studies in recent years, it can be seen that some studies of CSR have been attempted in developing countries such as, Islam, (2009, Bangladesh); Haniffa & Cook, (2005, Malaysia); Kuasirikun & Sherer, (2004, Thailand);

Purushothaman et al., (2000, Singapore); Imam, (2000, Bangladesh); and Tsang, (1998, South Korea).

However, it is unacceptable to extend and generalise the results of CSR studies in developed countries and compare these results with less developed ones as the level of economic development is likely to be an important factor affecting CSR practices (Tsang, 1998, p.624). Moreover, other society factors such as cultural and national differences are likely to affect accounting practices in general and CSR in particular even with similar economic rank (Mathews, 1993; Perera & Mathews, 1990). As mentioned earlier, past studies show very limited coverage of CSR practices and needs in Iran. This shortage of research provides justification for the current study in order to investigate such issues in Iran.

This study is important for a number of reasons. First, within the Iranian context as it has been argued, the accounting literature that deals with reporting practices is extremely limited (Mirshekary, 1999). This is especially true with respect to the existence of accounting literature on CSR practices and needs in Iran. To the knowledge of the researcher this is the first known study to explore CSR disclosure practices and expectations. An examination of CSR in annual reports of the Iranian listed companies and stakeholders' CSR perceptions will give some insight into the practice and needs of CSR in Iran. This study can be a step forward to enable Iran to participate more in the global community as far as corporate social commitments and corporate good governance ideas are concerns.

Secondly, the literature indicates that most of the CSR studies are based on companies in developed countries such as Western Europe, the USA, Canada, Australia and Japan (Gray, Kouhy, & Lavers, 1995_b, Tilt, 1994; Cook, 1991; Cook, 1989; Guthrie & Parker, 1989). There are some limited exceptions with CSR studies based on companies in developing countries such as Bangladesh, Malaysia, Singapore, and Korea (Haniffa & Cook, 2005; Imam, 2000; Purushothaman et al., 2000; Tsang 1998). This study expands the pool of knowledge of CSR practices and users' CSR expectations in developing countries and in particular, the Middle East region and it is expected to provide useful information for an international audience.

1.6 Research Framework

The study examines CSR practices in corporate annual reports and stakeholders' CSR information needs and perceptions. The relevant literature was reviewed to determine the nature, methodologies and results of the past studies in both areas of practice and users' needs. A sample of 103 Iranian listed companies' annual reports were selected and reviewed for their CSR disclosures. Content analysis method was used to collect CSR disclosure data. The unit applied to measure the CSR information was word. A questionnaire survey was also conducted to collect data about stakeholders' CSR information needs and perceptions. A sum of 333 respondents from six major stakeholder groups participated in this survey. The aim of the questionnaire was to gather data about corporate information user groups' needs and perceptions of CSR. The descriptive, multiple regressions and nonparametric techniques were used to analyse the research data.

1.7 Structure of the Thesis

The study has been planned in seven chapters. The first chapter is devoted to the introduction to the study and an explanation of the purpose of the study, research questions, justification of the study and the research framework.

The second chapter is allocated to a review of the corporate reporting environment in Iran. This review covers issues such as demographic characteristics of Iran, the economy in two specific time periods, early twentieth century to pre revolution, and post revolution. The review continues with introducing legal systems including the constitution, the justice system, the commercial code, the capital market and stock exchange, professional accounting bodies and accounting standards. The chapter concludes with a discussion of the huge changes in various aspects of corporate reporting in Iran particularly in the last couple of decades.

Chapter three presents a review of the research literature in three major parts. In the first part, the review covers a brief history of corporate social reporting and continues then with analysing empirical evidence on the extent of CSR disclosures and company characteristics in three categories, evidence from developed countries, developing countries and international CSR studies. The second part focuses on users' perceptions studies. Further the discussion is narrowed into the literature of usefulness of corporate social disclosures. The last part is allocated to the discussion of theoretical perspectives in this field of study.

Chapter four describes the research methodology. The nature of data, the method employed and the procedures adopted to collect, sort and analyse the data in this study are the major themes in this chapter. The sample annual reports of the listed companies with Tehran Stock Exchange (TSE) and a survey questionnaire as the data sources are discussed.

Chapter five examines the level of CSR disclosures of the sample companies using the content analysis method. The descriptive statistical analysis and multiple regressions techniques are used to analyse the relevant data.

In chapter six the data collected through the survey questionnaire, the statistical analysis of the data and the relevant results are presented. The discussions cover various aspects of respondents' CSR information needs and perceptions.

Finally, the last chapter provides a summary of the study. It also includes the major findings of the study, the implications of the study, limitations and suggestions for further research.

Chapter Two

The Iranian Corporate Reporting Environment

2.1 Introduction

This chapter discusses and analyses the environment under which Iranian corporations operate and report. The main focus of this study is CSR practices in Iran. However, other dimensions may become relevant to the discussion concerning the existence and roots of CSR in Iran.

Since the 1970s, increasing attention has been paid to the role and influence of environmental factors on the management of business and corporate accounting and information disclosure practices (Askary, 2006; Hofstede & Hofstede, 2005; Haniffa & Cooke, 2005; Radebaugh & Gray, 2002; Baydoun & Willet, 1995; Douppnik & Salter, 1995; Perera, 1989; Gray, 1988; Wallace, 1987; Hofstede, 1984; and Gambling, 1974).

Wallace (1987, p.42) discussed financial reporting environmental factors as the elements that directly affect contents of financial reports. He argued that:

The conditions and problems of disclosure of accounting information in developing countries cannot be adequately appreciated if there does not exist a full knowledge of the general environment from which such disclosures emanate and of the different kinds of factors which influence that environment. Disclosure of accounting information is a product of, and a factor in, the formation of the cultural, political and economic environment of the country from which it originates.

Radebaugh & Gray (2002, p.20) also supported the idea that environmental factors have a significant influence on business and management practices. They identified two points from studying these factors:

Two essential points should be drawn from this brief discussion of environmental influences. First, environmental analysis can be a valuable tool in explaining and understanding differences in the ways businesses operate in different countries. The second point concerns 'cultural relativism' which means that the rationality of any behaviour should be judged in terms of its own cultural context and not of an outsider.

Perera (1989) argued that accounting practices evolve to suit the circumstances of a particular society at a particular time. Similarly, Al-Hashmi & Apran (1992) stated that the needs of users are influenced by environmental factors specific to the locality in which their decisions are made (cited by Baydoun & Willett, 1995, p.67). Doupnik & Salter (1995) put more emphasis on technological and macroeconomic factors and argue that the stage of development affects the type of business transactions conducted in a country and the type of economy determines which transactions are more prevalent. According to these views, corporate financial reporting, as a function of the accounting system, is greatly influenced by environmental factors of the country.

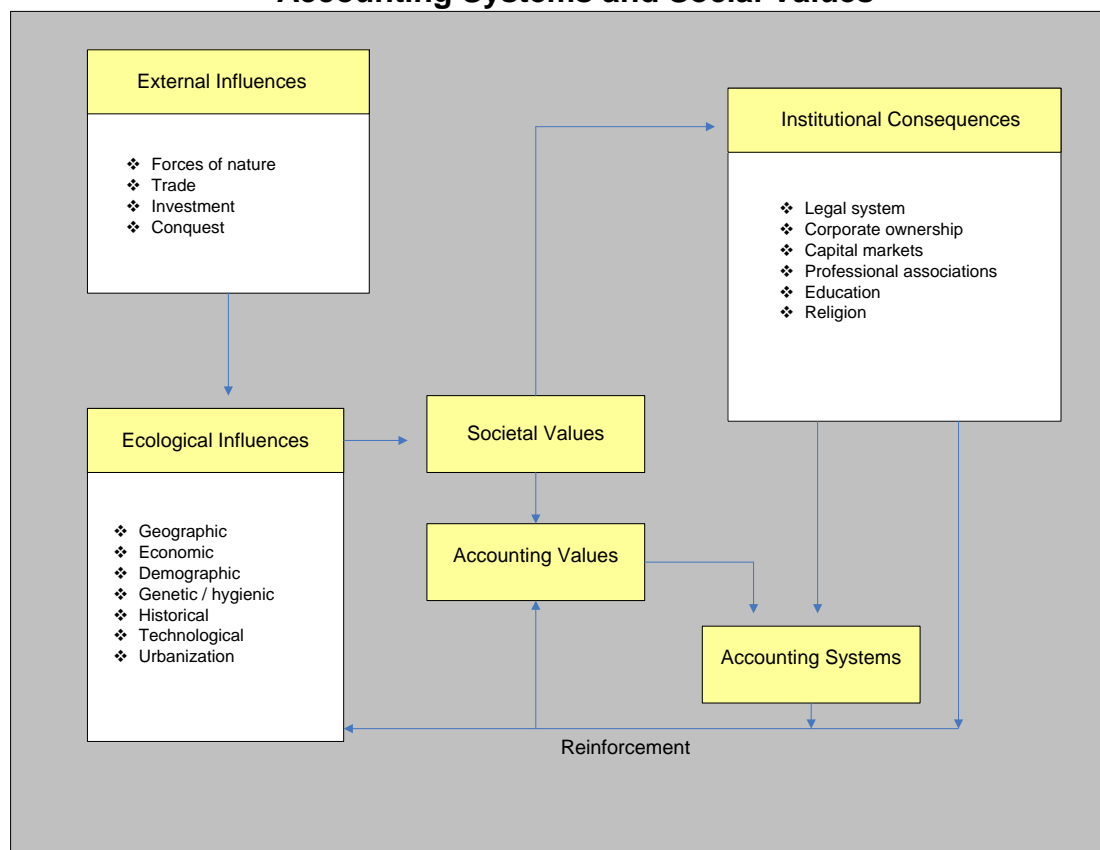
Hofstede & Hofstede (2005, p.4) defined culture within its broad concept as: “the collective programming of the mind which distinguishes the members of one group or category of people from another. Culture is learned, not innate. It derives from one’s social environment rather than from one’s genes”. Gray (1988, p.7), by adoption and extension of the model relating to the formation and stabilising of societal culture patterns proposed earlier by Hofstede (1980, p.27) drew a detailed figure of various influential and environmental factors on financial accounting systems. Gray (1988, p.5) discussed Hofstede’s model as:

In this model, societal values are determined by ecological influences modified by external factors such as international trade and investment, conquest, and the forces of nature. In return, societal values have institutional consequences in the form of the legal system, political system, nature of capital markets, pattern of corporate ownership and so on.

Figure 2-1 is the model developed by Gray (1988, p.7). This model demonstrates how the accounting system, as a subsystem of the institutional system, is affected by accounting values where accounting values¹ themselves are possibly a product of societal values.

¹ Accounting values apply to both objectives (i.e. accountability) and practices.

**Figure 2-1
Accounting Systems and Social Values**



Source: Gray, 1988, *Abacus*, p. 7

The patterns or assumed relationships between environmental factors and the accounting system have been supported by a number of thinkers. Baydoun & Willett (1995, p.69) described the relationships as "it seems plausible to suggest the existence of an effect by culture² on accounting practices but the mechanisms by which such affect might be transmitted are not immediately obvious". Hofstede & Hofstede (2005, p.8) believed the core culture is formed by values. In response to the question of what are the values, they defined them as broad tendencies to prefer certain states of affairs over others. Radebaugh & Gray (2002, p.29) described the origins of culture or societal values as:

² Baydoun and Willet (1995) also used the Hofstede's 1980 framework in their study.

The origins of culture, or societal values, can be found in a variety of factors affecting the ecological or physical environment. Societal values lead to the development and maintenance of institutions in society, which include family systems, social class structures, the political system, the legal system, the financial system, the nature of business ownership, the education system and so on. These institutions, once developed, tend to reinforce societal values and the factors giving rise to such values. However, when change at the national level occurs, it is mainly as a result of external forces, through the forces of nature or the forces of people. With respect to the latter, international trade and investment (and multinational enterprises) are potent factors as are the major upheavals of war and colonization. In addition scientific discovery (i.e. new technology) is a major factor for change. Such external forces affect societal values primarily through the physical environment, but they may also have an impact on the functioning of institutions in the short term by imposed force. Whether or not societal values will change in practice [over time], however, is more likely to be the result of longer-term shifts in environmental conditions.

In a narrower discussion on financial reporting environmental factors, Wallace (1987, p.55) with respect to economic, cultural and social development for each country and their affect on development of accounting practices and disclosures, argued that:

Social and economic developments affect the development of accounting information. There is a fundamental nexus among social needs for accounting information, economic growth and accounting development. Social changes such as changes in social values, literacy, social awakening, life style, social mobility, and cultural heritage are bound to create a need or an expectation for more information because a literate citizen needs more information than an illiterate one. These social changes affect other social variables such as human level of aspiration, motivation, innovation, inspiration, self-actualisation and overall social integration, all of which play crucial roles in economic development.

On similar conceptual lines, the above analyses suggest that accounting systems/accounting values and societal values/culture are not very readily separable. Therefore, it can be assumed that the environmental factors such as socio-cultural characteristics, economics, education, the accounting profession, accounting standards, and the legal and political systems are the factors that collectively and individually have influence on accounting information systems. However, as discussed earlier, the degree of influence and the mechanism by which each factor influences accounting practices and disclosures might not be immediately obvious.

This chapter attempts to provide a detailed, factual analysis of the above-mentioned factors in Iran. The contents of this chapter will provide a solid foundation for the remaining part of this study. Indeed, the results of an empirical analysis of a country's CSR can be better understood if the reader is aware of the characteristics of such a country (Baydoun & Willett, 1995, p.68; Wallace, 1987, p.42). The remainder of this chapter comprises six parts. The next part provides a discussion of the geography, population and history of Iran to give a brief background of its demographic situation. In part three the material covers the economic condition of Iran. Part four examines the legal and regulatory systems. Continuing, part five discusses the capital market and stock exchange history. Part six examines the accounting profession and accounting standards in Iran, while part seven provides a summary and conclusion of this chapter.

2.2 Geography, Population and History of Iran

2.2.1 Geography³

Iran⁴, officially the Islamic Republic of Iran, is a country situated on the Middle East or Southwest of Asia with a land area of 1,648,195 km⁵ and is the second largest⁶ country in the Middle East, after Saudi Arabia. To the north, it is surrounded by the former Soviet Union States - Turkmenistan, Azerbaijan and Armenia. Through the Caspian Sea, it is connected to Russia and Kazakhstan, while on the west it is flanked by Turkey and Iraq, with the Persian Gulf and Gulf of Oman to the south. Nearby on the other side of these gulfs, are Kuwait, Saudi Arabia, Bahrain, Qatar, United Arab Emirates and Oman. On the eastern side are Pakistan and Afghanistan.

The natural geography of Iran is dominated by a central plateau that is about 1,200m high and it is almost ringed by mountain chains. The Elburz Mountains paralleling the southern shore of the Caspian Sea are to the north. Along the western border, the Zagros Mountains extend south-east, running parallel to the Persian Gulf. Mountains of lower elevation lie to the east of the central plateau. Iran is also subject to some of the world's most severe earthquakes⁷ and the

³ Some aspects of the external environment do not affect accounting or do so in such an indirect manner that the link is no longer discernible. This would appear to be true for such factors as geography and climate (Doupnik & Salter, 1995, p.194).

⁴ Iran, although it was always called 'Iran' by the Iranian, was called Persia by Westerners after the Greeks who called Iran by the name of its provinces, Fars or Persia. This tradition continued until 21 March 1935 when Reza Shah made 'Iran' the official name of the country and requested that all countries follow his usage. In October 1949, his son, the Shah, who was deposed in 1979, allowed both names to be used. Before this change was made, Winston Churchill, in August 1941, had directed that the British use 'Persia' in official correspondence to avoid confusing Iran with Iraq. Consequently, depending on the nationality of the author, and when he/she is writing, usage varies (Kuniholm 1980, p.130).

⁵ Source; National Geosciences Database of Iran, <http://www.ngdir.ir/AboutIran/AboutIran.asp>

⁶ It is larger than 6.8 times the size of the UK

⁷ The Zarand earthquake was the last major earthquake with a large number of casualties in February 2005. The Bam earthquake occurred in December 2003 hitting the ancient city and surrounding villages in southeast Iran, killing at least 32,000 people. The number of casualties made Bam one of the world's most catastrophic earthquakes.

geological instability has frequently resulted in major physical damage and great loss of life. Due to its geographical situation, Iran has different climates⁸.

With regard to natural resources, the most valuable mineral resources of Iran are its great deposits of petroleum and natural gas. The principal oilfields are in Khuzestan. Other mineral resources include iron ore, copper, lead, zinc, coal, bauxite and chromate.

2.2.2 Population

According to the Statistical Centre of Iran (SCI, 2006) based on the last National Census of Population and Housing in 2006, Iran has a population of 70,049,262. Iran is the second most populous country in the Middle East after Egypt. After the Revolution in 1979, having large families was encouraged for a while, but soon the government realized that the high population growth rate of well above 3 per cent, was thwarting its efforts to reduce poverty and provide jobs and adequate housing for its citizens.

According to a case study conducted by Larsen (2001), Iran's decision relating to reducing the population growth rate in the last decade was one of the most successful actions among all countries. Birth rates in Iran have dropped by more than half, spurred by government support, concerted advocacy efforts and the establishment of one of the best primary health care systems in the region.

⁸ In general, there are four main regions: in the north around the Caspian Sea, the narrow Caspian Plain, a fertile, semi-tropical area, enjoys a warm and humid climate; in the south along the Persian Gulf and Gulf of Oman it usually has extremely hot and humid weather; in the centre and south-east, the arid central plateau experiences cold winters and hot-dry summers; the climate in the mountain chain areas of Elburz and Zagros can be specified with cold winters, mild summers and high precipitation.

The country has far exceeded the targets laid out at the 1994 International Conference on Population and Development in Cairo.

According to the SCI (2006), around 68.5 per cent of the population live in urban areas and the rest in rural areas. The average density is about 43 people per sq km but concentrations are much higher in the northern and western parts of the country. Islam is the main religion. According to the SCI, more than 99 per cent of the population are Muslim, mainly Shiite⁹, and the rest are from Zoroastrian, Christian, Jewish and other religions¹⁰.

In regard to education, it is suggested that the level of education in a country or in its accounting profession affects accounting practice (Doupnik & Salter, 1995, p.196). According to UNICEF (2007) data on Iran, while the adult literacy ratio for the period 2000-2004 was 77 percent, the primary school attendance rate reached 93 percent in 2005. Higher education numbers have shown a dramatic increase in recent years. This system currently works as a large network of public, private and state affiliated universities.

2.2.3 History

Creation of Iran – Iran, as one of the oldest countries and nations, has a very long and rich history. Iranians are descendants of Indo-Europeans (*Aryans*) who came from the Indian subcontinent about 2000 BC. *Cyrus the Great*¹¹

⁹ The second largest branch of Islam, Shiites, currently account for 10-15% of all Muslims (Source: <http://www.bartleby.com/65/sh/Shiites.html>). The Shiites make up more than 90% of population.

¹⁰ Source: See note No. 6

¹¹ *Cyrus* was the first *Achaemenian Emperor* of Persia, who issued a decree on his aims and policies, later hailed as his charter of the rights of nations. Inscribed on a clay cylinder, this is known to be the first declaration of Human Rights, and is now kept at the British Museum. A replica of this is also at the United Nations in New York (Source: <http://www.oznet.net/cyrus/cyframe.htm>)

established the first Iranian Empire as the *Achaemenian* dynasty in 550 BC. This became a great empire that encompassed parts of Eastern Europe, Egypt and India. The economy under this dynasty especially during the rule of *Darius the Great*, was well-regulated and organised upon satisfying the needs of people from poorest to the richest (Mashayekhi & Mashayekh, 2008, p.7). The Sassanian dynasty was established in 224 BC. In the reign of Sassanian, Zoroastrianism was promoted as the state religion. After a rapid period of expansion, when it contested supremacy with Rome, the empire was destroyed in 651 AD by Muslim Arabs at the *Battle of Qadisiya*¹². The seventh century Arabian invasion was the most significant foreign invasion which affected the development of Iranian society. This brought the Islamic religion to the country, with important cultural, linguistic, educational, religious and political implications. This period continued with a couple of dynasties of the Shahs with absolute power, and with more or less the same governing systems until the nineteenth century¹³.

The nineteenth century saw the beginnings of the process of change in Iran which would transform the country from a traditional feudal society into a modernised and centralised state (Martin, 1989, p.1). In 1794 *Aga Mohammad*

¹² Source: <http://pchome.grm.hia.no/~fsaljoug/SassMil.htm>

¹³ The emergence of the commercial activities of the European colonial powers in Iran goes back to the Safavid period (1500-1722). During this period the Iranians, were able to resist the intended colonial penetration. After the fall of the Safavid dynasty, the Iranian community fragmented and demoralised under the corrupt Qajar ruling classes, gradually surrounded to the colonial powers, Russia and Great Britain. However, since neither of imperialist powers desired a military confrontation in Iran, competition moved into social-political area of domination of the country. As a result Iran was not conquered as a formal colony, but survived as a buffer state between the expanding Russian Colonialism towards the Persian Gulf and the British strategy defending her own imperialist interest in India and Persian Gulf. Russia and British socio-economic penetration of Iran, though productive in terms of British commercial activities in Iran, was disastrous for the independent economic development of Iranian Society. This penetration, which was achieved through diplomacy and superior technology destroyed Iran's factories, which were important during the eighteenth century. (Parsa Benab, n.d., p.1).

Khan defeated the last ruler of the *Zand* dynasty and established the *Qajar* dynasty. During the *Qajar* era, the government revenues were direct tax, property income tax, customs (gifts/bribes) and leases. The first Iranian government bond was issued in 1892 (Mashayekhi & Mashayekh, 2008, p.8). The *Qajar* held power until 1925 and this long period saw Iran steadily lose territory to neighbouring countries and fall under the increasing pressure of European nations, particularly Tsarist Russia¹⁴.

The twentieth century - the early twentieth century witnessed another significant social-historical event; the rise of the constitutional [*Mashruteh*] movement. In 1906, the first Iranian Constitution was drafted by the first parliament [*Majlis*] as a consequence of the *Mashruteh* Movement¹⁵ (Kuniholm, 1980, p.131). The period preceding World War I was one of political and financial difficulty. During the war, Iran was occupied by the British and Russians, but remained neutral. After the war Iran was admitted to the League of Nations as an original member.

During the domination of the *Qajar*, in particular in the latter years of this regime, all classes of Iranian people were exhausted by social, economic and political unrest and suffered from lack of security (Omid, 1994, p.18). This environment created a situation where the people of Iran welcomed the establishment of another dictatorship. In 1921, *Reza Khan*, an army officer, led a coup that ended with the establishment of a new monarchy regime in Iran

¹⁴ The *Qajar* monarchs were incapable of establishing a sound fiscal policy, and to compensate for this, they progressively disposed of Iran's economic resources to foreign powers in return for small sums of money that satisfied their immediate financial needs. Source: <http://www.art-arena.com/qajar.html>

¹⁵ Before this time Iran had no crucial laws, or even a constitution, to restrict the Shah's power (Ghods, 1989, p.2)

with *Reza Khan* himself at the helm. The impact of imperialist penetration on the historical development of post-1921, however, was not confined to the question of British interests in Iran and the establishing of a military regime¹⁶. The economic and political activities of Great Britain in Iran, as well as her relations with the absolute monarchy and certain socio-political forces, also created far-reaching consequences in the nature and trend of the socio economic development in contemporary Iran (Parsa Benab, n.d., p.4)¹⁷. In 1925 he announced the collapse of the *Qajar* dynasty and founded the *Pahlavi* dynasty. In the early years of *Reza Khan's* rise to power, he was seen as a modernising reformer who could restore Iran's pride, unity and independence (Ghods, 1989, p.94). But these dreams were far from reality as the Shah showed no belief in power sharing to handle modernisation issues. The first *Pahlavi* ruler wanted to modernise Iran without altering the patrimonial structure of society, which was his main source of power. In politics, he allowed neither democracy nor transparency in any aspect of the governing and rules of the country. To consolidate his personal power, he reduced parliament and the cabinet to rubber stamps. *Reza Shah's* economic policy at this time was described as an appetite for industrialisation far beyond the bounds of economic rationale, not for the sake of efficiency and welfare, but as a symbol of prestige and status (Ghods, 1989, p.101). During World War II the Allies protested his rapprochement with the Germans, and in 1941 British and Russian forces

¹⁶ The most important British economic interest was the emerging oil industry. In the post coup period, the Iranian oil emerged as a primary source of energy and naturally attracted Great Britain and the US. to Iran (Parsa Benab, n.d., p.4).

¹⁷ Example of socio economic consequences of this period is introduction of the modern administrative techniques (e.g. modern accounting practices) for public and private organisations in Iran (see more discussions under sections 2.3 and 2.6 in this chapter).

invaded and occupied Iran. Forced to abdicate in favour of his son, *Mohammad Reza Shah*, he died in exile in Johannesburg in South Africa in 1944.

Events in Iran during the 1940s and later were part of the overall shift during World War II from global alliance to the cold war. *Mohammad Reza Pahlavi*, ruling from 1941 until 1979, was the last Shah of Iran. This piece of history is one of the most challenging periods for Iranians and their political leaders, as it witnessed events with huge social, political and economic consequences that were not limited to Iran's borders. Nationalisation of the oil industry during the 1950s and the Revolution in the 1970s are among the most important events in this period.

In 1949, the National Front was formed as a coalition of nationalist groups and parties from a broad spectrum of Iranian politics. In 1951 *Mohammad Mossadegh*, as leader of the National Front and Prime Minister, forced the parliament to nationalize the oil industry and form the National Iranian Oil Company (Ghods, 1983, p.184). Although a British blockade of oil trading led to the virtual collapse of the oil industry and to serious internal economic troubles, *Mossadegh* continued his nationalisation policy and was openly opposed by the Shah. In 1953, *Mossadegh* forced the Shah to flee the country but the Shah was quickly returned to power and *Mossadegh* was toppled by a CIA-backed coup led by *General Fazlollah Zahedi* in the summer of 1953 (Risen, 2000). The Shah, however, soon after started to eliminate all political opposition by the

establishment of the secret police, SAVAK¹⁸, set up with a \$4,500 million aid package donated by the USA (Omid, 1994, p.28). He abolished the multi-party system of government so that he could rule through a one-party regime in an autocratic fashion. With Iran's great oil wealth, *Mohammad Reza Shah* became the pre-eminent leader of the Middle East, and Guardian of the Persian Gulf.

During the 1960s and 1970s, dissatisfaction with the Shah's economic and socio-political policies fuelled a potential political movement against the Shah while he remained optimistic about his modernisation plans. In 1977 he was under pressure by the USA administration to relax the grip of SAVAK (Bakhtavar, 2009). The new situation provided a ground for opposition groups to publicly demonstrate their political views against the regime. Under the leadership of *Ayatollah Khomeini* the movement united almost all opposition groups, mainly nationalist and religious, against the Shah. On January 16, 1979 the Shah and his family were forced to flee Iran a second time, following a year of extreme turmoil and public protests, heralding the Iranian revolution. Following his departure, *Ayatollah Ruhollah Khomeini* who had returned from French exile, abolished the monarchy and established an Islamic Republic.

The Islamic Revolution - on 11 February 1979 the Shah's regime was formally overthrown by Revolutionary forces and this ended a 2500 year tradition of monarchy in Iran. *Ayatollah Khomeini* as leader of the revolution appointed the moderate, former, opposition politician, Mr *Bazargan*, as prime minister.

Bazargan's moderate policies came under sharp attack by the radical Islamic

¹⁸ SAVAK was the secret police and intelligence service organisation established by the Shah in 1957 and disbanded after the revolution in 1979.

revolutionaries, who dominated a variety of ultimate power centres (Ghods, 1989, p. 220). Eventually *Bazargan* was forced to resign in November 1979. This time the Revolutionary Council took control of government. Later, on September 22, 1980, Iraq invaded Iran, commencing an eight-year war primarily over the disputed *Shatt al Arab*¹⁹. The war rapidly escalated, leading to Iraqi and Iranian attacks on oil tankers in the Persian Gulf in 1984. Fighting crippled both nations, devastating Iran's military supply and oil industry, and led to an estimated 500,000 – 1,000,000 casualties. Chemical weapons were used by Iraq. Finally in July 1988 Iran and Iraq agreed to accept a UN cease-fire to end the war. *Ayatollah Khomeini* died in 1989 and was succeeded by Iran's president, *Ayatollah Khamenei*. The presidency was soon filled by *Ali Akbar Rafsanjani*, who sought improved relations and financial aid with Western nations, while somewhat diminishing the influence of religious fundamentalism. *Rafsanjani* was re-elected president in 1993. The United States suspended all trade with Iran in 1995, accusing Iran of supporting terrorist groups and attempting to develop nuclear weapons. Several European Union countries began renewing economic ties with Iran in the late 1990s; the United States, however, continued to block more normalised relations, arguing that the country had been implicated in international terrorism and was developing a nuclear weapons' capacity. In 1997, *Mohammed Khatami*, a moderately liberal Muslim cleric, was elected president, which was widely seen as a reaction against the country's repressive social policies and lack of economic progress (BBC News, 2009) *Khatami* finished his second term in office in August 2005 and was replaced by an Islamic hardliner, *Mahmud Ahmadinejad*. The change has

¹⁹ A waterway that empties into the Persian Gulf and forms the boundary between Iran and Iraq

brought about a major shift in both domestic and international policies of the Iranian government. *Ahmadinejad* ran his presidency campaign with many populist promises of implementing economic and social justice. In 2009 his election to the second round of presidency was widely disputed across all domestic pro democracy and moderate religious political streams in Iran²⁰. As yet, there is no conclusive evidence to support his success for the promised social and economic aims. *Ahmadinejad* policies are discussed in the next section of this chapter.

In summary, Iran's history is punctuated with periods of great upheaval and social dislocation. However, historically, all political or social changes within Iranian society have basically appeared with a root in economic, social and political injustice. Perhaps the most significant influential events on the current social, political and economic positions have happened during the last century. In the twentieth century Iran experienced two revolutions: the constitution [*Mashruteh*] movement in 1906 and the Islamic Revolution in 1979. These revolutions both tried to change the structure of governance in Iranian society through new constitutions²¹ with the hope of improving the social, economic (justice) and political (democracy and accountability) situations.

While the constitution [*Mashruteh*] movement ended up with another dictatorship (*Reza Shah*), there are many questions about the Islamic Revolution's promised political democracy, justice and overall accountability.

²⁰ There are many controversies around his second term victory as the election result is believed to be a rigged result by the oppositions and many independent observers.

²¹ The creation of an elected parliament as a result of the constitution [*Mashruteh*] movement and changing the base of government from a monarchy system to a republic system as result of the 1979 revolution.

However, the sought values obviously could not be achieved without being spread across the whole system. Accordingly, they must be seen in all sub-systems and levels of responsibility and activity including corporate governance.

Accountability and democracy – Gray, Owen & Adams (1996, p.38) defined accountability as: “the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible” while “accountability involves two responsibilities or duties: the responsibility to undertake certain actions and the responsibility to provide an account of those actions”. They believe in the existence of a relationship between accountability and CSR in a participative democracy for a micro-accounting unit or corporate level as follows:

In a participative democracy there must be flows of information in which those controlling the resources provide accounts to society of their use of those resources. This is *accountability*, the development of which we see to be the major potential for CSR (p.37).

And they define participation democracy as:

...democracy which requires a much higher level of personal involvement of the demos in the political process through, normally, a major devolution of power to ‘local level’ politics (p.37)

Three decades have elapsed since the collapse of the last Shah’s regime and the Islamic Republic regime is now established. This study, as mentioned in section 1.3, is the first²² attempt made in this particular area, to examine the level of CSR and also stakeholders’ perceptions, which perhaps in turn

²² To the best knowledge of the researcher

represent the level of understanding and implication of accountability in regard to some social factors related to corporate reporting in Iran.

2.3 The Economy

This part examines the structure, progress and situation of Iran's economy during the last century with an emphasis on trends and conditions in the last five decades. Doupnik & Salter (1995, p.197) argue that the stage of development [economic development, type of development and growth pattern] affects the type of business transactions conducted in a country and the type of economy determines which transactions are more prevalent, each of which is an intrusion on the accounting system.

A brief review of the last century shows a continuous attempt to raise the standard of living of the population in Iran. During this period, substantial changes have taken place within the economy. These changes, and also changes in other environmental factors in turn, should have been influencing the accounting information system, and the corporate accounting and information disclosure practices based on the idea that 'accounting is a product of its environment'²³.

Early twentieth century to pre revolution - a shortage of quantitative data makes discussion of the precise situation of the Iranian economy in the early twentieth century very hard. In this regard, Bharier (1971, p.3) states that quantitative data about Iran's economy in the early twentieth century is scarce

²³ The phrase is adopted from Radebaugh & Gray, 2002, p.19

but he concludes that a sprinkling of isolated statistics and interpolations lend a brightness to the picture of the economy of that period.

Studies of the economics of the early twentieth century indicate that ‘factories, as the term is understood and used in Europe, do not exist’ (Bharier, 1971, p. 13). The government had a very weak influence on the economy (Katouzian, 1981, p.27, Bharier, 1971, p.7). Foreign trade continued to grow following the growth of the last quarter of the nineteenth century. The trend of this growth was negative (more imports) and a perennial deficit on trade which led to a belief that the country was getting deeper into debt (Bharier, 1971, p.10). The reason for increasing foreign trade during this period has not been seen as a domestic economic development. On the contrary, this was probably the result of the growth of European demand for primary products and pressure of European powers (Katouzian, 1981, p.37). During this period, oil, a new factor, emerged in Iran and this was destined to dominate almost every aspect of the economy in the following decades. However, in the early years of discovery, its revenue did not significantly change the economy. The modern banking system was in its early stage of establishment. There was also no general government budget²⁴ or statement of accounts (Bharier, 1971, p.19) and obviously no accountability from those who were in charge. Issawi (1971) believes that in the early 1900s, Iran was less industrialised compared to Turkey and Egypt and remained so until the mid-1960s.

²⁴ Katouzian (1981, p.67) explains this budget as “there was, of course, no such thing as it is normally understood – was made up of a series of revenue and expenditure estimates, and no year were these fulfilled”.

The end of World War I created an opportunity for the devastated Iranian economy to start to recover and, to some extent, reintegrate into the global economy. After the growing extension of effective central authority, security on roads increased and the general risk of trade reduced (Katouzian, 1981, p. 92). It is from this period onwards that oil revenue became the main source of revenue for government and a key factor of the Iranian economy. As a result, this situation facilitated the economic progress, industrialisation and modernisation of the country. Table 2-1 provides a clear indication of growth of oil revenue during 1919 to 1926.

Table 2-1			
Oil revenues and exports 1919-1926			
Year	Oil revenues (£ m.)	Volume of oil exports ('000 long tons)	Oil revenues per long ton (£ sterling at the 1919 exchange rate)
1919	0.47	1106	0.42
1920	0.59	1385	0.58
1921	0.59	1743	0.67
1922	0.53	2327	0.43
1923	0.41	2959	0.23
1924	0.83	3714	0.39
1925	1.05	4334	0.43
1926	1.4	4556	0.60

Source: Katouzian (1981, p.93)

After 1925, the financial administration of the American advisor, Dr. *Millspaugh*, set the country's internal and external finances on a sound footing and provided for the first time, clear budget allocations for capital expenditures. During the 1930s, the state began to impose new taxes on tea and sugar as well as increasing oil royalties. As well, a fluctuating customs surcharge provided funds for a number of well-publicised government enterprises, including the completion of the Trans-Iranian Railway (Bharier 1971, p.52). The general

policy of the government during this period was the establishment of state factories, along with various protective devices for privately owned plants. According to official records, some twenty-four new enterprises, each of them employing ten or more workers, were founded during this period. These enterprises were mostly, though not wholly, state-owned (Katouzian 1981, p. 106). The 1930s period was also the beginning of the world economic recovery, followed by general rearmament and World War II. These events ensured the stability and later growth of Iranian oil revenues. This situation facilitated and boosted the industry expansion programs of the government. In 1941, the budget allocation to the Industry was nearly fifty times what it had been in 1934²⁵. However, Bharier (1971, p.87) stated that choice of manufacturing industries was generally well-conceived on the grounds of raw material supplies and existing domestic markets, yet administrative and accounting inefficiencies in state plants meant that practically all the state plants set up by the end of the 1930s were a drain on the annual budget.

During World War II, Iran was occupied by the Allied forces and this superseded the government role and influence in the economy. By the end of the war, when conditions improved, the idea of systematic planning by government emerged. *The First Seven-Year Development Plan (1949-1956)* was prepared with the help of American consultants and approved by parliament in 1949. The nationalisation of the oil industry brought a big shock to this plan, as oil revenue stopped for three years. This plan gained very limited success compared with

²⁵ Allocated budget for Industry and Trade was 22 million rials (approximately US\$680,000), 3.5 percent of the total budget in 1934 while the budget for these sections rose to 1006 million rials, 24.1 per cent of the total budget in 1941 (Bharier 1971, Tables 1 and 2 on pp. 65-66).

the established targets. The physical achievements of the plan were confined to the establishment of six new industrial factories, some road and rail construction, and a few minor developments in irrigation and mechanisation in the agricultural sector (Bharier, 1971, p.92).

Jalali-Naini (2003, p.17) believes, in planning the budget, it was assumed that the economy was faced with missing markets, pervasive market imperfections, and an economically and politically weak private sector. This understanding of the economy gave way to the 'centralised' view that the state should step in directly to replace the above conditions. The general trend in the *Second Seven-Year Development Plan* (1955-1962) did not change a great deal from the first plan. It included a series of state projects, categorised under four main sections: agriculture, communications, industries and mines, and public utilities and services. The plan had no overall target other than total expenditure and the general direction imposed on it by the Plan Act²⁶.

The *Third Development Plan* (1962-1967) commenced with a five-year period then extended to a five-and-half year period. This was more comprehensive than the previous two in the sense that all major targets for the economy were stated in the plan (Bharier, 1971, p.95). However, the basic developmental thinking in Iran since the 1950's has been a planning framework in which the oil industry, as the 'Leading sector' and the engine of growth, would supply any surpluses for investment in other sectors. The mapping of such resource flows

²⁶ - See the 'Second Seven Year Development Plan of Iran (Plan & Budget Organisation)

into sectoral expenditure allocations has traditionally been the cornerstone of development plans in Iran (Jalali-Naini, 2003, p.18).

Source	1964 Revision	%	1965 Revision	%	1965 Actual	%
Revenue from oil	134	61	154	62	153	67
Treasury bonds	10	5	13	5	14	6
Foreign loans	17	8	61	24	21	9
Domestic loans	48	22	19	8	36	16
Other	11	5	4	2	5	2
Total Revenues	220	100	250	100	229	100
Less admin. Expenses	4		4		5	
Loan repayment	16		16		19	
Revenues for Development	200		230		205	

Source: *Bharier (1971, p.98)*

The *Fourth Development Plan* (1968-1972) began with three alternative economic growth rate targets. In this case the targets were an annual growth of G.N.P of 6, 7 or 8 percent²⁷. But since the years preceding the start of the plan had seen higher growth rates, the basic target was finally set at about 9 per cent. Similar to the Third Plan, this plan followed the official policy of import substitution. In this plan, like previous plans, expenditure on projects such as dams and transport facilities was expected to play a large part.

The *Fifth Development Plan* (1973-1977) was the most ambitious compared to all the past plans (Amuzegar, 1993, p.7). The sharp oil price rise in 1973 became a good reason for the Iranian government to make some hasty changes on this plan by expending the budgets just before its implementation

²⁷ See the 'Fourth National Development Plan, 1968-1972 (Plan & Budget Organisation)

started. As a result, the total investment target of \$36 billion changed to nearly \$70 billion for the period. In the new plan, public and private investment outlays were nearly seven times the size of the *Fourth Plan*²⁸. According to Amuzegar (1993, p. 7) this plan turned out to be highly unrealistic in its revenue projections and unduly confident over the feasibility of its goals. These unrealistic plans put the economy in such a position that many goals became unattainable. An overall picture of the economic results of the *Fifth Plan* can be viewed in the Table 2-3.

	1973	1974	1975	1976	1977	1973-77
Agriculture	6.0	3.5	4.8	7.3	0.3	4.4
Oil	9.2	-1.0	-12.2	9.9	-1.6	0.9
Industry	22.1	16.3	23.4	26.5	-1.6	17.5
Services	4.5	37.9	17.5	25.8	8.2	18.3
GDP (factor cost)	9.2	10.5	2.6	17.8	2.3	0.85

Source: Amuzegar (1993, p.360)

The results from the *Fifth Plan* indicate that they were far from what were targeted. Amuzegar (1993, p.8) believes the *Fifth Plan*'s shortfalls – apart from its overly ambitious and virtually unattainable goals, and an unexpected decline in oil revenues – were caused by: a lack of careful calculation of emerging demand for housing, electricity, water, transportation, and other infrastructure, and too much confidence in the technocrats' ability to manipulate essential market forces. However, it was hoped that all problems in the *Fifth Development Plan* would be addressed within the *Sixth Development Plan* but preparation of this plan, for numerous reasons, did not happen. Therefore the

²⁸ Iran's *Fifth Development Plan*, Revised 1973-1978: A Summary, Tehran, Plan & Budget Organization, January 1975

government decided to put aside the five-year planning altogether, and to proceed with the annual developmental budgeting for each economic or social program within ten- and twenty-five year 'guidelines'.

According to Valadkhani (1995, p.3) and Amuzegar (1993, p.3) the Iranian economy until the early 1970's was predominantly an agricultural one with low per capita income, and one which chiefly relied on labour intensive technology. However, the fact is that this period was the starting point for many fundamental changes in many aspects of the structure of the economy, the society and the culture of Iran. During the period of 1960-1977, the share of agriculture was reduced from 29 per cent to less than 10 per cent of GDP. By contrast, the share of industry increased from 33 per cent to about 50 per cent and the service sector's share remained roughly the same (Amuzegar, 1993, p.5).

The above brief review of the economic development before the changing of the political regime in Iran shows how this progress was developed from the early project-lists of the first two plans to the more comprehensive approaches in the later ones. Even though the five development plans achieved a reasonable measure of success, considerable difficulties were evident including at the lower level of government. More and more non-strategic and small-scale projects were left to the private sector and the profit motive, so that even though the overall size of the *Plan and Budget Organisation's* programme increased through the five plans, this served mainly to expand opportunities for activities by private entrepreneurs (Bharier, 1971, p.101). Indeed, this was an era of introduction and increased share of the corporations in the economy. As a result

the situation created and extended interaction between society and corporations in the day to day lives of both parties.

Post revolution - in February 1979, the Shah's regime collapsed and soon the Islamic Republic formally acknowledged a devastated economy. Amuzegar (1993, p.34) stated the position of the economy as:

More than a year of political turmoil, public disturbances, strikes, sabotage and physical destruction had left the economy in chaos. Economic activity was in deep recession. Oil production and exports were down to half their annual levels, as were government revenues. The banking system faced an imminent collapse due to massive withdrawals and increasing non-functioning loans. Unemployment, inflation and capital flight were on the rise. Foreign trade, domestic investment and public confidence were on the decline.

With such a situation, the revolutionaries from almost all factions against the former regime found themselves in office with no economic agenda acceptable to anyone. Eventually, after short term challenges between various political factions, the clerics and followers of *Ayatollah Khomeini* captured the key positions and became the main power in developing the Constitution. Thus, direction of the country's macroeconomic structure moved toward an Islamic economy. Article 44 (the initial) of the Constitution defines the Islamic Republic economic structure as:

The economy of the Islamic Republic of Iran is to consist of three sectors: state, cooperative, and private, and is to be based on systematic and sound planning. The state sector is to include all large-scale and mother industries, foreign trade, major minerals, banking, insurance, power generation, dams and large-scale irrigation networks, radio and television, post, telegraph and telephone services, aviation, shipping, roads, railroads and the like; all these will be publicly owned and administered by the State. The cooperative sector is to include cooperative companies and enterprises concerned with

production and distribution, in urban and rural areas, in accordance with Islamic criteria. The private sector consists of those activities concerned with agriculture, animal husbandry, industry, trade, and services that supplement the economic activities of the state and cooperative sectors. Ownership in each of these three sectors is protected by the laws of the Islamic Republic, insofar as this ownership is in conformity with the other articles of this chapter, does not go beyond the bounds of Islamic law, contributes to the economic growth and progress of the country, and does not harm society. The [precise] scope of each of these sectors, as well as the regulations and conditions governing their operation, will be specified by law.

Within the Constitutional perspective, it seemed that self-interest was respected as the private sector (including cooperatives) had been recognised in the economy. Yet the government played a significant role by holding almost all the main large industry infrastructure and the direction of the economy²⁹.

One of the very early consequences of the new political and economic regime was in the banking sector of Iran. The first step was the merging and nationalisation of thirty-six banks, many privately-owned. Within the scope of having an Islamic banking system, laws and regulations pertaining to money and banking institutions and monetary policy design and implementation were amended to reflect the priorities and principles as set out in the Constitution. Then to implement the Islamic rules, the Usury-Free Banking Act was approved in 1983 (Komijani, 2005). This set the structure for Iran's current banking system.

²⁹ In 2004 this article was adjusted with expanding the role of the private sector in the economy; this is discussed later on in this section

In 1980, beside the major changes in the banking system, Iran's economy was involved in another fundamental change over ownership of all major manufacturing and service companies. The owners of many private companies established by borrowing from banks had left the country. The defaulted loans became a major problem for both banks and companies. The problem was compounded by inexperienced managers and directors who shut down operations and dismissed workers unless they were assisted by the government. Because of such problems that resulted from the Revolution, a total of more than 500 companies were nationalised and the *Iran National Industries Organisation* was established to manage them. After the implementation of the Nationalisation Law, shares in private industrial enterprises were abandoned by the private sector (Mirshekary, 1999, p.72).

However, in reality, during the early years after the revolution and particularly during the war, the government took an even greater role in a control position of the economy. This was seen as the sole way to social justice and a foundation for rapid economic development (Mirshekary, 1999, p. 66). Indeed, events like the Iraq and Iran war were a good justification for such an approach. The end of the war, along with the world political changes in the late 1980s, brought some new thoughts into the economy regarding the level of government interference in the economy. Thus, transferring part of government social and economic activity to the private sector became a serious agenda for the Iranian authorities since the *First Five-Year Social and Economic Development Plan*.

By the enactment of the *First Five-Year Social and Economic Development Plan* (1989-1993), the government announced that it intended to entrust state

industrial units, except strategic industries, to the private sector. The change of trend from a centralised economy to a more open economy based on the extension of private sector contributions was not just an internal incident for the Iranian economy. This approach coincided with the fall of the centralised economies of Eastern Europe in 1990. According to Amini (1995, p.20):

With the fall of international communism and demonstrable shortcomings of the centralised system, and the world wide belief that the free market system is going to be the 'way' of the new world economy, social attitudes came to experience an equally radical turnabout. In many developing countries, including Iran, the public and many officials now accepted the free market solution with as much enthusiasm as they adhered to the opposite view.

Generally, this Plan was successful in some areas (Abadi, 1995 and Hakimian, 1999) like the reduction in the state's control over the economy by promoting private sector initiatives. Apart from these successes, due to some fundamental problems, such as lack of an open trade regime, a stable and predictable environment, economic security for investment and a well-developed institutional and regulatory capacity, this Plan ended with many failures (Mostashari, 2004). However, it is believed many economic problems after the revolution largely had roots in the political problems rather than in the economic ones.

The *First Plan* outcomes provided good feedback for planners of the Second Plan which began in 1994. In this plan, the focus was on issues like employment, environment protection, development of heavy and light industries, self-sufficiency and providing basic needs of the community such as housing and health (Abadi, 1995). The economic hardship of the Second Plan

period was characterised largely by declining economic growth and macroeconomic instability which forced the government to shift from adjustment policies to control ones. It is argued that the most successful action during this plan period was achieved in the regulation and management of the external debt arrears, which had been largely paid off by mid-1999 (Komijani, 2005).

Because of the sharp decline in oil prices during the *Second Plan*, the economy suffered to a large degree. However, in designing the *Third Plan* (2000-2004), authorities were aware of this major factor and generally, the serious consequences of the oil price fluctuation where the economy was mainly backed by oil revenue. With this background, the Third Plan was formulated with a focus on objectives such as: liquidation, privatisation, merging and restructuring of state owned enterprises; raising the efficiency of the tax system and eliminating the existing organisational bottlenecks; the establishment of an 'Oil Stabilisation Fund' to cushion the economy and government budget against fluctuation of oil revenue; adjustment in the regulation and introducing flexibility into the banking industry.

According to Komijani (2005) the plan has succeeded in meeting some objectives such as appropriate economic growth, growth of capital formation, improvement in balance of payments and reductions in the unemployment rate. But the high rate of liquidity growth and the inflation rate, the large size of the government sector and the unsuccessful privatisation program of state-owned enterprises, were the weakest points of the implementation side of this plan. Part of the preventative problems as Komijani (2005) discussed was that during

this plan the region and Iran's relations experienced a non-stable situation due to the occupation of Iraq and its internal war, and also issues relating to Iran's nuclear energy industry and the continuation of political problems between Tehran and Washington. These problems still strongly exist and apparently are the major problems in the region for any social and economic progress³⁰.

Despite the great importance placed by Iran's authorities on the privatisation issue, the limitations imposed by article 44 of the Constitution on the engagement of the private sector in the economy remained the main preventive element until 2004. Under this article all major industries, including, oil, gas, foreign trade, banking, insurance, power generation, telecom and postal service, railway, airline and shipping had to be left in the hands of the government. But in 2004, the Expediency Council decided to rescind article 44 of the Constitution in order to relax the private sector contribution for most major industries. The decision enabled all major industries, manufacturing and service sectors, except for downstream oil and gas³¹ industries, to be ceded to the private sector (Mostashari, 2004).

Although the Third Plan only achieved limited success, it was deemed an appropriate model for the *Fourth Plan* (2005-2009). This plan again targeted objects that would challenge the Iranian economy for a long time. The main objects set out were on issues such as: a more open economy based on competitiveness; privatisation and a lesser role for the government in the

³⁰ Afghanistan and Iraq are still politically and socially unstable. UN and unilateral sanctions by some countries against Iran have been extended in recent years. These are the major issues for the region.

³¹ Now, even the Oil Minister invites domestic and international private investors to invest in oil refinery projects (Cited from Ettelaat, the Persian daily international newspaper 19 Feb. 07).

economy; more autonomy for the Central Bank in monetary policy design and implementation; more independence for the National Iranian Oil Company based on a royalty scheme and implementation of a clear legal framework for foreign investment in Iran. Among the *Fourth Plan's* social objectives, a higher standard of living and improvement of social security and welfare schemes were highlighted (Komijani, 2005).

In the first year of this plan, 2005, Iran's political climate witnessed a dramatic change. A moderate government was replaced in office by a hardline team led by Mahmoud Ahmadinejad as president. Among differences between these two teams, one was economics (Fassihi, 2005, p.A.11). The new government demonstrated little interest in the economic plans set by its predecessor in the *Fourth Plan*. Ahmadinejad started with populist economic and social justice promises such as bringing oil revenue on to the Iranian table or selling the government-owned shares in companies to low-income earners at a reduced price to be paid in instalments, the so called *Justice Stock Scheme*. These promises were a good approach in politics, but doubts could be cast as to whether they led to a sustainable policy (Fang, 2007). However, the Plan ended with strong criticism of government economic performance. Mazrooie (2010) a former Iranian MP, explained the state of the economy during the Fourth Plan as:

The '*Justice Share*' [*Justice Stock Scheme*] has created massive debts for the government and the so-called 'privatisation' has not had the desired effects such as positive economic growth, increase in investment, decline in inflation and unemployment. The militarisation of the already crippled and oil-based Iranian economy will have devastating effects, just as incorporating the intelligence apparatus within the economy in the past, had produced negative

economic effects and forced the political system to change this conduct. The costly experience is being repeated once again.

The Fifth Plan (2010-2015) was just recently prepared by the government based on its own vision of affairs. According to the Tehran Times news report (2010) the plan is focused along the lines of justice-based progress. It has targeted boosting of the private sector's role in the national economic growth and increasing the cooperative sector's share to 25 per cent in economics and reducing the unemployment rate to seven per cent in 2015 from the current rate of 11 per cent.

2.4 The Legal System

As has been discussed in section 2.1, the accounting system, as a subsystem, is under a possible direct and indirect impact of various ecological and institutional factors. The legal system is part of an institutional framework within which an accounting system is very likely to interact. The legal system influences the way in which accounting rules are promulgated, which in turn could influence the nature of the rules themselves (Doupnik & Salter, 1995, p.195; Iqbal et al., 1977, p.22). This section reviews the legal system and commercial code of Iran in two parts. The first part discusses the past and current constitutional laws and the structure of the current political power. The second part focuses on the commercial code.

2.4.1 The Constitutional Laws

The First Iranian Constitution - the idea of having modern constitutional laws came to Iran through the increased influence of Europeans in the late nineteenth and early twentieth centuries. In 1906, as a result of the constitutional [*Mashruteh*] movement, this idea became an historical achievement for the Iranian people by receiving the assent of *Mozzaafar Al-Din Shah* for the first constitutional laws shortly before the Shah's death. This document, which was influenced by the 1791 French and the 1831 Belgian constitutions, laid out the skeleton of a modern parliamentary system for Iran (Afary 2005, P.345). It is believed, as the powers of the king were concerned, the Iranian constitutional laws of 1906 went beyond the Belgian, Bulgarian, Ottoman, as well as the German, Japanese, or Russian constitutions. The Iranian law vested the parliament with many of the rights that had previously been given to the European kings or the Japanese emperor (Afary, 2005, p. 358). For Iranian people the constitution was a means to make political power accountable, through a democratic system. In this regard Katouzian (1981, p. 60) stated:

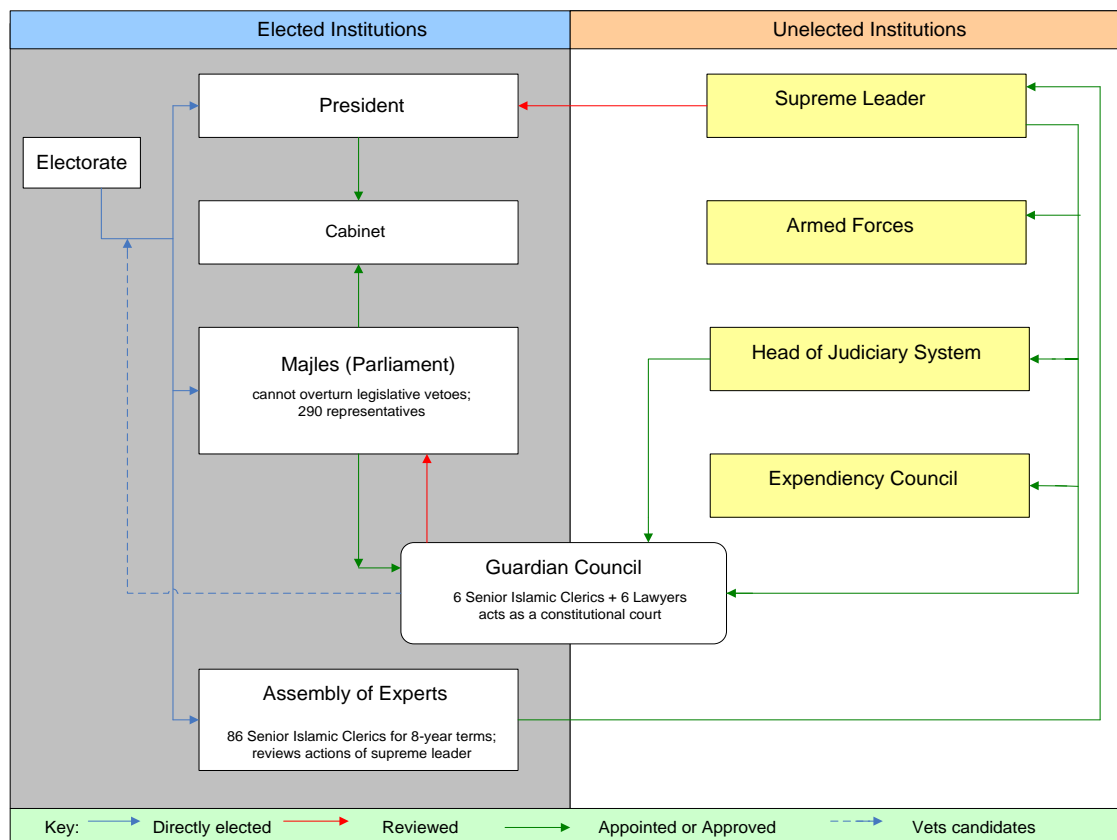
The revolutionary triumph promised law, political participation and greater personal security to all. This would automatically ensure greater economic safeguards, (and, hence, more political power) for all forms of private property. It also promised greater freedom and a more open society, which was cherished by writers, poets and journalists both for ideological and for professional reasons. Besides, this group - more than any other – expected a quick rise in Iran's fame and fortune in consequence of the fall of despotism. Thus, the revolution against despotism was not fought for purely 'idealistic' reasons – that is, merely because the revolutionaries disliked despotism and preferred a 'democratic' system; its triumph promised real economic, social and personal gains for the participating classes and individuals.

In fact, despite all historical struggles and challenges, the constitution came under continuous distortion and inattention in particular during the *Pahlavi* dynasty (Katouzian, 1981, p.234 and Afary, 2005, p.358). However, the 1979 revolution replaced the constitution with the current one.

The Current Constitution was adopted in December 1979 shortly after the victory of the revolution, with significant revisions expanding presidential powers and eliminating the prime ministership in 1989. This Constitution has a very unique, complex and unusual political structure, a system that combines elements of the old and modern Islamic theocracy with democracy. The system on the one hand includes a network of unelected institutions controlled by a Supreme Leader, and on the other hand a president and parliament elected by the people. The main body of the political power structure can be seen in the following diagram:

Figure 2-2

Political Power Distribution under the Current Constitution



Source: BBC³²

The Supreme Leader - the idea of positioning the Supreme Leader at the top of Iran's political power structure (Article 110) is based on the ideas of *Ayatollah Khomeini*. According to the above diagram, the Supreme Leader of Iran is responsible for the delineation and supervision of "the general policies of the Islamic Republic of Iran." In the absence of a single leader, a council of religious leaders is appointed (Article 111). The Supreme Leader is commander-in-chief of the armed forces and controls the Islamic Republic's intelligence and security operations; he alone can declare war. He has the power to appoint and dismiss

³² Source: <http://news.bbc.co.uk>

the leaders of the judiciary, the state radio and television networks and the supreme commander of the Islamic Revolutionary Guard Corps. He also appoints six of the twelve members of the Council of Guardians. He is elected by the Assembly of Experts, on the basis of his qualifications and the high popular esteem in which he is held. However, according to the law, the Leader is equal with the rest of the people of the country in the eyes of the law.

The Presidency - according to Article 113, after the office of Leadership, the president is the highest official in the country. He is responsible for implementing the constitution and acting as the head of the executive, except in matters directly concerned with (the office of) the Leadership. The president is elected for four years and can serve no more than two consecutive terms. In practice, however, presidential powers are circumscribed by the clerics and conservatives in Iran's power structure, and by the authority of the Supreme Leader.

The president is the head of the cabinet. He supervises the work of the ministers and takes all necessary measures to coordinate the decisions of the government. With the cooperation of the ministers, he determines the programme and policies of the government and implements the laws. In the case of discrepancies, or interference in the constitutional duties of the government agencies, the decision of the council of ministers at the request of the president shall be binding provided it does not call for an interpretation of, or modification in the laws. The president is responsible to the parliament for the actions of the council of ministers (Article 134).

The Parliament (*Majlis*) - the Parliament is an institution presently with 290 members elected by popular vote every four years. The parliament has the power to introduce and pass laws, as well as to summon and impeach ministers or the president. However all laws have to be approved by the guardian council. Therefore, due to the very conservative political nature of the current council, there is no expectation of getting approval of any significant reform bill through this council. The rejection of reform bills has happened many times during the domination of the reformist in the parliament during 2000-2004.

The Guardian Council - according to Article 91, the Guardian Council has been created with a view to safeguard the Islamic ordinances and the constitution, in order to examine the compatibility of the legislation passed by the parliament with Islamic precepts. The Council has to approve all bills passed by parliament and has the power to veto a bill if it considers the bill is inconsistent with the constitution and Islamic law. The Council can also ban candidates from standing for election to parliament, the presidency and the assembly of experts. The combination of these authorities makes the Council a very influential body within Iran's political power structure³³. The Council has twelve members - six members of the Council are senior Islamic clerics appointed by the Supreme Leader, and six are jurists nominated by the judiciary and confirmed by the parliament (*Majlis*).

³³ In the 2005 presidential election, the Council approved only six candidates (none of them from the reformist camp) out of more than 1,000 who applied to run. However, after an outcry, the Council relented and allowed two more candidates on the ballot.

The Judiciary - the struggle for a constitutional order in Iran began with the demand for a uniform code of law and the establishment of a House of Justice. The judicial system was controlled by the clergy until early last century, but latterly developed through a secular system (Afary, 2005, p. 356). After the revolution, the Supreme Court revoked all previous laws that were deemed un-Islamic. The new laws, based on Shariah-law, derived from Islamic texts and sources, were introduced soon after.

However, according to Article 156 the judiciary is an independent power, the protector of the rights of the individual and society, responsible for the implementation of justice, and entrusted with the following duties:

- investigating and passing judgement on grievances, violations of rights, and complaints; the resolution of litigation; the settling of disputes; and the taking of all necessary decisions and measures in probate matters as the law may determine;
- restoring public rights and promoting justice and legitimate freedoms;
- supervising the proper enforcement of laws;
- uncovering crimes; prosecuting, punishing, and chastising criminals; and enacting the penalties and provisions of the Islamic penal code; and
- taking suitable measures to prevent the occurrence of crime and to reform criminals.

Despite the insistence on independence of the judiciary system by the constitutional laws, the system has never seen independence of political

influence³⁴. Therefore the concept of independence of the judiciary system has very limited application within the structure of the current political power structure of Iran.

The Assembly of Experts - the Assembly which meets for a week every year, consists of eighty-six *Mujtahids*³⁵ (senior Islamic Scholars) elected by the public for eight-year terms. Like presidential and parliamentary elections, the Council of Guardians determines eligibility to run for a seat in this assembly. According to Articles 107 and 111 the responsibilities of the Assembly of Experts are to appoint the Supreme Leader, monitor his performance and remove him if he is deemed incapable of fulfilling his duties. Despite having such a power, the assembly has never been known to challenge any of the Supreme Leader's decisions.

1. **The Expediency Council** - it was initially created by *Ayatollah Khomeini* in 1988 and was included in the Constitution laws through the 1989 revision. The Council has two major roles. In the first role, it works as an advisory body for the Leader. In the second role it has the authority to mediate disputes between parliament and the council of guardians where a proposed bill of the parliament is perceived as being against the principles of Shariah or the Constitution, and the parliament is unable to meet the expectations of the Guardian Council. The Supreme Leader

³⁴ In recent years, the fundamentalist Islamic groups have used the judicial system to undermine reforms by imprisoning reformist personalities and journalists and closing down reformist papers. Another case was the case of the former reformist Mayor of Tehran, *Gholamhossein Karbaschi*, a close ally of the former reformist president *Khatami*. After *Khatami's* victory, a fierce power struggle started within the political establishment of Iran between the reformists and conservatives of the Iranian government. Many reformist figures were put on trial and sent to prison by the hardline Judiciary on different grounds. *Karbaschi* was put on trial on grounds of embezzlement and was sentenced to time in prison.

³⁵ A *Mujtahid* is an Islamic scholar who can interpret divine law (*Shariah*) in practical situations.

appoints its members. In October 2005, the Supreme Leader gave the expediency council “supervisory” power over all branches of government delegation - some of his own authority as is permitted in the constitution. It is not clear how much this will affect the council’s influence. According to BBC³⁶, initially observers believed that it was likely to strengthen the position of its present chairman, the modern conservative and former president *Rafsanjani*. But the political differences between *Rafsanjani* on one side and the Leader and the President on the other side (particularly after the latest presidential election) are expected to limit the role of the present Council’s chairman (Smyth, 2009).

2.4.2 The Commercial Code

In the first quarter of the 20th century, after the advent of constitutional government and the attendant efforts at modernisation and reform of the legal system, the first Iranian Commercial Code was introduced in 1925. Like the Constitution Laws, this code was heavily influenced by some of its European counterparts particularly the French and Belgian Companies Acts³⁷.

In 1932, the Code was amended for the first time. The amended Code sets some new provisions in regard to the organisation and operation of commercial companies, including, to some extent, the issues of business transactions, accounting and bookkeeping. The amendments in the laws and introduction of financial statements at this time were quick responses to the identified

³⁶ Iran, who holds the power?

http://news.bbc.co.uk/2/shared/spl/hi/middle_east/03/iran_power/html/expediency_council.stm

³⁷ The laws were influenced by the Belgian and French Companies Acts due to the fact that the initial writers of those laws were educated there and their advisers also were from those countries. See Afary (2005)

shortages of the initial laws (Ghorbani, 1993, p.2). Years after introducing the Commercial Code and its first amendment in 1932, the second amendment in 1969 focused on the regulatory framework for joint stock companies (Pour-Naini, 1993, p.96). This time the amendments were set basically in response to the needs of the new emerging phenomena such as establishment of large scale joint stock companies and introducing the stock exchange into the economy³⁸. This amendment regulated the legal form for various types of joint stock companies, securities regulations, capital market (supplemented by the Stock Exchange Law of 1968), negotiable instruments, bankruptcy and receivership (Amuzegar, 1977, p.10).

This Code has been in force for years since its introduction and its later amendments. While there have been so many vigorous alterations in the Iranian business environment as a result of social, economic and political changes such as a rapid growth of private foreign and local investments during a decade up to the revolution and having the major political and economic changes after the 1979 revolution, it seems the current Code is incapable of serving fully current financial reporting environment demands³⁹.

The Code is limited to minimum accounting and disclosure provisions. For instance, articles 232-242 of the section require a company's board of directors to prepare a balance sheet and income statement at the end of each fiscal year. These reports should come with a report by directors about the company's

³⁸ See section 2-5 in this chapter

³⁹ For example there is a lack of specific legislation concerning corporate mergers, acquisitions and foreign investment in the TSE. With the approval of the Fourth Plan and particularly Article 15 of this plan (Namazi, 2006), and adoption of IASs backed by the legislation, the government has been trying to respond to such shortages in commercial laws.

activities and affairs. In regard to quality of accounts, the company must maintain consistency and prepare the same structure and evaluation methods as in the preceding fiscal year. Asset depreciation and any necessary reserve must be taken into account. Article 148 refers to the duties of inspectors' selected by shareholders. They have to provide reports on financial statements and also provide documents and information to a company's general meeting. As an old law, this Code does not provide any professional accounting principles in relation to inspectors' duties. Article 144 contains a regulation that is intended to support auditing.

The introduction of accounting standards enforceable by law means there is no longer a lack of standards dealing with measurement and disclosure. However, with only two very minor exceptions about human resource related disclosures⁴⁰, neither the Commercial Code nor the Accounting Standards or any other rules mandate any sort of disclosure on social and environmental issues within the annual directors' report of Iranian companies. Therefore, generally any disclosures or information on these areas should be considered as voluntary disclosures.

2.5 The Capital Market and Stock Exchange

The idea of having a stock exchange and capital market in Iran dates back to the 1930s. The early studies of establishment of a stock exchange were conducted by Bank Meli Iran assisted by experts from the Brussels Stock

⁴⁰ See more details in section 5.4

Exchange⁴¹. But the outbreak of World War II and other political and economic problems at the time prevented any further progress in establishment of the stock exchange in Iran. Later, after about three decades, the Iranian parliament ratified the Stock Exchange Act in 1966. The Tehran Stock Exchange (TSE) officially started operations in 1968.

In the first couple of years, the operation was limited to a few companies' shares, some government bonds, and certain state-backed certificates. Mirshekary (1999, p.73) believes this lack of interest in the capital market can be attributed to socio-cultural features and the existing problems of transactions in joint stock operations. However, during the 1970s this trend changed due to institutional changes within corporate ownership structures like the transfer of shares of public companies, and large private firms owned by families, to the employees and the private sector. Frischenschlager (2003, p.1) stated the expansion of TSE during the 1970s up to around the time of the revolution:

During its first year of activity only six companies were listed. The number of companies increased to 43 by early 1974. After the first oil price boom and along with the increase TSE in foreign exchange revenues of the country, the activities of the TSE expanded considerably. As a result, the number of firms listed at the TSE reached 102 by early 1978. Of these, 24 were commercial and specialised banks.

During the time of the revolution, 1978-1979, trade dropped dramatically and in 1979 just a few new listings were recorded. After the revolution, the

⁴¹ History of economic relations between Iran and Belgium goes back to the late 19th century. At that time, Iran took advantage from co-operating with Belgium in erecting its first sugar factory, its first railroad between Tehran and Shahr-e-Ray, and establishment of modern Ministries of Customs, Finance and Post (See Iran and Belgium Chamber of Commerce (IBCC) site on <http://www.ibcci.com/MainPageEn.aspx>).

environment for the operation for TSE became even worse. In the first two years many companies were either confiscated or nationalised, which reduced the number of listed firms to only fifty-five (Mirshekary, 1999, p.78). Bond trading ended in 1983. Because of these events, the TSE experienced a period of standstill until late 1980s. After about a decade the TSE started to play a more active role in the capital market in the early 1990s. Since then despite some extreme ups and downs, the expansion of the role and activity of TSE in the capital market has continued (Mashayekhi & Mashayekh, 2008, p.75).

2.5.1 Structure of the Securities Market

According to the new Capital Market Law, approved by the parliament in November 2005, the Securities Market Organisation is a public non-governmental institute with legal and financial independence and to be funded through service charges and admission fees collected from companies listed on the Exchange, and other revenues. The Securities and Exchange Council is the highest authority and responsible for all related policies, market strategies, and supervision of the market. The Chairperson of the Council will be the Minister of Economic Affairs and Finance; other members are: the Minister of Commerce, Governor of the Central Bank of Iran, Managing Director of the Chamber of Commerce, Attorney General, Chairperson of the Securities and Exchange Organization, representatives of the active market associations, three financial experts nominated by the Economics Minister and approved by the Council of Ministers, and one representative for each commodity exchange. The Securities and Exchange Organization will be responsible for administration and supervisory duties, governed by the Board of Directors. The five members of

the Board are nominated by the chairperson of the Securities and Exchange Council and approved by the Council members. On the operations side, Tehran Stock Exchange (TSE) as a company is responsible for facilitating trading stocks. TSE is mainly owned by licensed stockbrokers.

2.5.2 Listing on TSE

TSE has a single market for shares trading but different “Boards” with different characteristics, the Main Board and the Secondary Board. The difference is the minimum paid-in capital, years of business activity, minimum number of shareholders, and minimum years of positive financial results.

2.6 The Accounting Profession and Accounting Standards in Iran

Short History - modern accounting, relatively, is a new profession in Iran. In regard to the history of the accounting profession, as stated by Salami (1993, p.148) the early stage of the emergence of modern accounting and auditing in Iran was in the 1930s. In 1936 for the first time the terms ‘balance sheet’, ‘debit’ and ‘credit’ were used by an Iranian government official in a directive note related to accounting and auditing. The application of modern accounting techniques during this period was common only among the active foreign firms in Iran such as the former Oil Company, the Imperial Bank of Persia and some other foreign firms. National Bank [*Bank-e Meli*] was the first Iranian firm to use modern accounting techniques Salami, p.147). Throughout the early period, the training of accountants was in the hands of British and American professional bodies and just a few institutions, including the College of Technology Abadan, American College and some private colleges like College of Commerce and

College of Bank-e Meli were involved in teaching of modern accounting and bookkeeping.

In 1944, the first independent professional association was founded by a group of Iranian graduates in accounting from UK colleges (Salami, 1993, p.148; Roudaki, 1996, p.46). However, for various reasons such as the non-availability of a sizable number of qualified accountants and the lack of support from government and other organisations, this body never became an active and formal professional society in Iran (Roudaki, 1996, p.46).

The use of expert accounting and auditing services was considered in the Income Tax Law in 1949. The issue was reintroduced in the revised Income Tax Law 1956. Article thirty three (33) of the Income Tax Law required the submission of income statements and balance sheets of companies to the Tax Office after being examined by a member of the Institute of Expert Accountants set up under this bill. However, the legislated requirement remained only on paper without any significant effort to recognise and introduce the expert accountants by the official bodies until 1961. In 1963 following some efforts by professional members and government agencies, as a part of implementation of the tax laws, the Finance Ministry decreed the constitution of the Institute of Expert Accountants with thirty six (36) members. Shortly thereafter, the Institute of Expert Accountants was disbanded in the new tax law called the Direct Tax Act in 1967, due to perceived lack of expected functions of such an institute by the legislators (Mokhtar, 1992, p.22). Roudaki (1996, p.46) believes one of the reasons for its malfunction was attributed to the fact that despite the requirement stipulated in the Income Tax Law, the Tax Office was not prepared

to accept any auditing done by these 'official auditors' for the purpose of determining income taxes for companies.

In line with the changes in the country's economy the Commercial Code was amended in 1969. Though the amendment was one step forward in regard to promoting usage of modern accounting techniques, it was still far from having a significant effect on the development of the accounting profession (see section 2.4.2).

In another movement, the Direct Tax Act of 1967 recognised the role of auditors in the examination of the financial reports of companies (Mokhtar, 1992, p.23). In the Act, these professionals were referred to as the Official Accountants.⁴² In 1970, following the above progress, based on the Direct Tax Act 1967, the Finance Ministry decreed the membership of sixteen accountants as the first members of the newly established government accountant body called the Society of Official Accountants. The practical role of these accountants, as private hands of the Finance Ministry, was to examine financial reports of businesses from the tax point of view (Roudaki, 1996, p.49).

The major social and economic changes in the 1960's and early 1970's became the vehicle for fast growth of the accounting profession in Iran. Mokhtar (1992, p.26) believes two specific factors contributed to these changes. The first factor was the establishment and expansion of the TSE and the other factor was the increase in the number of accounting graduates from local and international

⁴² There was no official relationship between Official Accountants (a legislated association of auditors recognised by law) and IICA a private association of professional accountants. However, a member might have been member of both associations.

universities. According to TSE regulations, listed companies were required to present financial reports audited by certified auditing firms. The purpose of this regulation was to increase the level of quality in the financial reports of companies (Mirshekary, 1999, p.51). This, in turn required increasing the level of professionalism and knowledge in accounting practice and training. In 1974, the Iranian Institute of Certified Accountants was established by a group of accountants (IICA). The members of this institute consisted of accountants who functioned as self employed independent accountants or accountants of private and government firms (Roudaki 1996, p.50). During this period, some of the big international audit firms established subsidiary firms using Official Accountants or IICA members as their domestic partners. However, as Roudaki argued (1996, p.45) in spite of all this progress the profession and practitioners have received limited recognition by the government and the public.

After the Revolution - after the victory of the Revolution in 1979, the Iranian accounting profession was faced with some dramatic changes in the financial reporting environment (Mokhtar, 1992, p.24). All major private banks, insurance and manufacturing companies were confiscated or came under the direct supervision of the government. The Society of Official Accountants was terminated and professional influence became limited. To manage the situations of the confiscated firms, government bodies established their own audit firms i.e. National Industries and Plan Organisation Audit Firm (1980), Mostazafan Foundation Audit Firm (1981) and Shahed Audit Firm (1983) (Salami, 1993, p.153).

The establishment of these relatively big audit firms became a major factor in bringing together many of the well trained accountants from the previous regime who had lost their positions in liquidated international subsidiary firms or inactive domestic firms (Mirshekary, 1999, p.51). Despite all changes within the professional accounting environment due to the Revolution, the fundamental issues of accounting such as lack of national accounting and auditing standards, and having major professional activities in the hand of government were yet to be addressed⁴³.

Audit Organisation - in 1983, after a long debate among professionals involved in government owned firms and the parliament with regard to matters of efficiency and professional consistency among various government owned audit firms, the merging of the four audit firms was ratified by the parliament (Roudaki, 1996, p.52). The merged firms included all three audit firms established by the government bodies after the Revolution and the Audit Company (*Sherkat-e Sahami-e Hessabressi*, another government owned audit firm established in 1971). In 1987, the Audit Organisation's by-laws were approved and the organisation formally established as a legal entity, with financial independence, affiliated to the Ministry of Economic Affairs and Finance. In 2003, in order to comply with Article four (4) of the *Third Economic, Social and Cultural Development Plan* the organisation's by-laws were revised and as a result its legal status changed to State Owned Limited Company.

⁴³ The government owned audit firms were the only available independent auditors for the majority of companies until the early 1990s when the rules were relaxed and private audit firms shared the professional activities.

According to its by-laws (2003), the main functions of the Audit Organisation are in the areas of practice, setting accounting and auditing standards, research, training and publications in the field of accounting. On the practice side, according to the Article seven (7) of the by-laws⁴⁴, it is involved in financial auditing of those corporations in which the government owns fifty per cent or more of the equity, and other government foundations. Perhaps its most significant role is that it is the official body in charge of setting accounting and auditing standards, the code of professional ethics and providing guidelines on the professional standards. Training, research and publication in the field of accounting, auditing and other related subjects are other areas of the Audit Organisation functions (Article 6).

The legislated recognition and responsibilities of the Audit Organisation as the in-charge body for the accounting and auditing standards and as a centre for training, research and publication, paved the way for greater growth and development of the accounting profession particularly during the 1990s and 2000s. The growth and development came in the form of setting the national accounting and auditing standards, establishing of the Iranian Association of Certified Accountants (IACPA) and a more active role and involvement of private professional firms in professional activities.

Accounting Standards - in 1994 the process of setting national accounting standards began with the release of some accounting guidelines. A complete set of the guidelines was issued in 1999 to be complied with for two years.

⁴⁴ A Persian language version of the Audit Organisation's by-laws can be accessed on <http://www.audit.org.ir>

These guidelines were a translated copy of twenty-two International Accounting Standards (Mashayekhi & Mashayekh, 2008, p.80). The purpose of issuing these guidelines was to seek views and comments on the application of these standards in Iran. After the trial period, the first set of twenty-two official Iranian Accounting Standards came into force on 20th March 2001. However, currently, there are thirty binding accounting standards. These standards mostly are completely in line with the International Accounting Standards⁴⁵ and only a few of them have minor differences in order to match them with the Iranian financial reporting environment⁴⁶.

The Accounting Standards Setting Committee (AccSSC) comprises nine professional members; five individuals who are senior managers and members of the Board of the Audit Organisation; two representatives of IACPA; one representative of Security Exchange Agents and one representative of industry.

Auditing Standards - similar to the accounting standards, initially thirty International Auditing Standards were issued as guidelines in 1997. After a two-year trial period, all standards have been approved as the first set of Iranian Auditing Standards in 1998 and then became effective on 20th March 1999. Currently, the auditing standards include thirty-seven standards and all are in line with the International Auditing Standards. The Auditing Standards Setting Committee (AudSSC) comprises seven professional members; five individuals

⁴⁵ Adoption of the International Accounting Standards is one of the major integration movements of corporate reporting practices in Iran towards international values in terms of application of accounting practice values.

⁴⁶ A list of Iranian Accounting Standards with their compatible IASs can be found on the Audit Organisation Web-site <http://www.audit.org.ir>

who are senior managers and members of the Board of the Audit Organisation and two representatives of IACPA.

Code of Ethics - in regard to a code of ethics, the Audit Organisation followed a similar approach as it did for adoption of accounting and auditing standards. Therefore, the approach was to adopt the International Federation of Accountants' Code of Ethics as a base for the Iranian Professional National Code of Ethics. Words were changed if there was a need to accommodate the Iranian financial reporting and cultural environment. These codes have been in force since 20th March 1999.

Corporate Governance - the first edition of the corporate governance code was published by the TSE in 2004. The 22 clauses contain some common definitions, number of board of directors, structure, and duties, shareholders responsibilities; and necessity of audit committees. This code was edited and published in five chapters and 37 clauses in 2005 (Mashayekhi & Mashayekh, 2008).

The IACPA – IACPA⁴⁷ was established as a non-government accounting professional body with financial independence by parliamentary approval in early 1994. The establishment of the Association can be seen as a major factor in structuring a sustainable forward movement for the accounting profession in Iran. The first ten members of the association were selected by the Ministry of Economic Affairs and Finance in 2001. Some of the conditions to become an individual member are: members must have Iranian nationality; a bachelor

⁴⁷ All information about IACPA is cited from the institute website accessed November 2009
<http://www.iacpa.ir>

degree in accounting or similar field; six years auditing work experience (each two years experience in another area of accounting and finance is equal to one year of experience in auditing, however, minimum work experience in auditing is three years); and complete the IACPA Tests which include accounting, auditing, commercial law, finance and taxation tests. Currently, IACPA has about one thousand members.

The other form of membership in IACPA is institutional membership. The main condition for institutional membership of a public practice firm is that it must at least have three individual IACPA members as partners. According to the by-laws for Section 4 of 'Using of Professional services of Certified Accountants' law approved by the government cabinet in September 2000, only IACPA firms are allowed to be the auditor of listed companies on the TSE, public companies and their subsidiaries, foreign companies registered in Iran and all government owned companies. Currently, there are 163 firm members with 3 or more individual IACPA members as partners.

The IACPA has seven advisory committees: Training; Taxation; Codes of Conduct; Audit Firms; Standards; Regulations and Quality Control. The IACPA also plays an active and significant role in AccSSC and AudSSC. The association has a range of publications produced by or for IACPA such as a quarterly magazine.

2.7 Summary

The corporate reporting environment (external factors) is seen as influencing a country's accounting system. This chapter provided historical details of some

major corporate reporting environment factors that collectively and/or individually have direct or indirect impact on the development of the accounting systems and financial reporting in Iran. In this regard the demographic factors, economic history, the government structure, legislation and justice systems, the laws, and accounting history and accounting profession have been reviewed in order to gain knowledge about the origins, growth and development of culture and social values and economic measures in Iran.

A brief conclusion of materials indicates that the socio-economic and political changes, in particular, during the last five decades provided a great opportunity for development and enhancement of the corporate and accounting information systems and accounting profession in Iran.

Chapter Three

Literature Review

3.1 Introduction

This chapter reviews and evaluates the previous literature on the factors influencing the extent and nature of CSR and also determines the perceived CSR information needs of users of financial reports. The issues subject to CSR can include disclosures of various concerns such as the natural environment, human resources, energy, and product quality and community relations (they have been discussed in detail in section 1.2). On the other hand, the literature on users' perception studies also covers a wide range of empirical studies which examine the information needs of different user groups of financial reports and evaluates the level of disclosure by companies, and then compares actual disclosure with information needs of users (expectations gap). This latter literature has been found mainly from examining annual reports as a whole rather than being specific to CSR in financial reports.

The chapter proceeds with a brief discussion of the history of CSR within company annual reports. The following section analyses the previous literature

relating to CSR and corporate characteristics. This will include a discussion of the extent and nature of CSR. This section also reviews previous research on CSR from developed, less developed/developing countries and at an international level. The next section describes previous research which examined the usefulness of the annual report by various groups of users. The identification of an expectations gap, the relationship between the need for, and the usefulness of corporate social disclosure is then discussed. This will then lead to a discussion of the theoretical perspective which underlie the research.

The considerable interest in corporate social reporting is demonstrated by an increase in the CSR literature over the past decades (Mathews, 1997; Elkington, 2001; Owen, Swift & Hunt, 2001; Gray, 2002 & Hopkins, 2002). This increase is due in part mostly to a series of pressures from the public for better corporate behaviour and responsibilities in the interests of societies' and future generations. To achieve this, the leading-edge corporations have started to practise value creation through a network of relationships with a great number of interrelated individuals and stakeholders (Gao & Zhang, 2006).

To follow the purpose of this chapter, this review focuses on two main areas. The first area is about measuring the extent of actual CSR disclosure by companies and assessing the relationship between the level of CSR disclosure and company characteristics. The second area is about users' perceptions of CSR disclosure in corporate annual reports.

3.2 Brief History of Corporate Social Reporting

Most empirical studies of CSR practices have focused on developed countries, particularly English-speaking ones such as the USA, the UK, Canada, New Zealand and Australia (see for example, O'Dwyer, 2005; Deegan, Rankin & Tobin, 2002; Hackston & Milne, 1996; Gray, Kouhy & Lavers, 1995_a; Tilt, 1994; Cook, 1991; Zeghal & Ahmad, 1990; Cook, 1989; Guthrie & Parker, 1989; Belkaoui & Karpik, 1989; and Trotman & Bradley, 1981). In comparison, little work has been done on this issue with a focus on less-developed countries/developing countries.

The literature on CSR issues is very wide and covers different aspects of corporate social reporting. Belkaoui & Karpik (1989, p.36) discussed three types of CSR research. According to their argument, the first type of research investigates the potential relationships between the extensiveness of a firm's social disclosure and its social performance with the hypothesis that the quantity and the quality of social disclosure are positively correlated with its social performance. In the second type of study, researchers examine the potential relationships between social performance and economic performance, with the hypothesis that social performance and economic performance can be correlated in three ways: positively, negatively, and in association between extreme levels. Finally, the third type of study examines the potential relationships between social disclosure and economic performance. The hypothesis is that (a) social disclosure reduces investors' information uncertainty and (b) social disclosures are correlated (positively or negatively) with economic performance. This classification seems to be limited and is not

wide enough to embrace and cover all current social accounting research themes. Perhaps comparison of this classification with Adams' (2002) classification (see later in this section) could reveal the shortage of the extent of this classification in regard to the existing literature.

Mathews (1997, p.500) in his review of the literature pertaining to environmental and social accounting, argues that between different periods since 1971, distinguishable trends can be found in respect to this phenomenon. In this study, Mathews (1997) provides an historical review in this field with no specific reference to findings. However, this classification of the literature can be considered as a general classification of CSR studies and perhaps more useful in accounting history works.

Adams (2002, p.224) suggested a three-category' classification of CSR studies in respect to factors associated with CSR practice. These groupings are studies seeking associations between CSR practices and:

1. company specific factors or characteristics, such as company size, profitability or economic performance, financial leverage or debts and industry types;
2. general contextual factors, such as country of origin, time, specific events, media pressure, stakeholders and social, political, cultural and economic context; and
3. the internal corporate management factors such as existence of a social reporting committee and management characteristics.

However, not all previous studies have a perfect match with this classification. As in some studies, a combination of two or all three categories' factors is used to hypothesise the relationship between those factors and CSR practices (see Trotman & Bradley 1981; Roberts, 1992).

In regard to the extent of CSR disclosures, this study focuses on the first category of Adams' (2002) classification. The main target in the following sections is to provide supporting information and a structure to assess the current finding on the CSR practices and its relationship to some company characteristics.

3.3 Empirical Evidence on the Extent of CSR Disclosures and Company Characteristics

Social accounting is an attractive area of research and study (see discussion in section 1-1). Social accounting research as discussed in the previous section embraces a wide agenda concerned with various related social matters. From the definition of CSR described in section 1-2, it implies that this phenomenon may be explained by the interaction of a number of broad socio-political and economic variables such as some company characteristics. Many studies have been conducted to evaluate the extent of CSR disclosure in corporate annual reports and have examined the association between a number of company characteristics and the level of CSR disclosure (See for example, Purushothaman et al., 2000; Hackston & Milne, 1996; Patten, 1991; Belkaoui & Karpik, 1989; Cowen, Ferreri & Parker, 1987; and Trotman & Bradley, 1981). The results are mixed and although almost all studies have used large

companies as samples, their number, size and industry type differed from study to study.

Gray, Kouhy & Lavers (1995_b, p.49) reviewed CSR literature in their study and argued that tentative conclusions could be reached despite both the diversity of concerns and approaches in the literature, and the diversity of countries, time-periods and samples selected for investigation. Their discussion referred to four determinants of social accounting disclosures, and conclusions arrived at were as follows:

First, CSR would not appear to be a systematic activity. To the extent that it is not covered by regulation, social disclosure seems to wax and wane in popularity, in the subjects to which it gives attention and in terms of the organisations which provide such disclosure. Second, CSR does not appear to be related to profitability in the same period [...] although there is some evidence to suggest that it might be related to lagged profits [...]. Third, CSR does appear to be related to company size. However, this is not the most reliable of results, when no allowance is taken of other factors [...]. Fourth, there is some evidence of industry effects but the studies are not clearly consistent enough to assess exactly what, if any, these effects might be [...]. Fifth, the country in which the organisation is reporting and the country of ultimate ownership seem to have a significant effect [...]. Finally, there would appear to be a number of characteristics which may be related to predisposition to make social disclosures.

According to the review by Gray, Kouhy & Lavers (1995_b), the concerned determinants are 'company size', 'company profitability' 'industry type' and 'country of origin'.

This study, by adoption of the Trotman & Bradley (1981) model as it is discussed in section 4.3.1/2, examined all determinants concerned in Gray.

Kouhy & Lavers' (1995_b) conclusions with the exclusion of the 'country of origin' factor as it is irrelevant for this study and inclusion of 'financial leverage' as another factors of company characteristics. Adams (2002, p.225) also indicated that, based on some previous studies, there are some relationships between company characteristics and CSR. According to her findings, corporate size and industry type appear to be important variables while there are some mixed results for company profitability. However, she believes these results must be interpreted with caution. The reason behind this conservative view is that there are various ethical and environmental factors other than company characteristics which can impact on corporate reporting behaviour.

The following sections continue the literature review of CSR based on company characteristics by distinguishing the studies into developed countries and less developed/developing countries. Among the existing studies, there are those where the subject of study is for more than one country and those where the subject is for a combination of developed and developing countries. Therefore, this category has been classified as international studies. However, the purpose of this classification is to group results more narrowly. This could provide a better insight into understanding previous findings in each category and thus provide an opportunity to compare those findings with current study results.

3.3.1. Evidence from Developed Countries

The CSR studies in developed countries alone come with a very wide spectrum of concerns. In the area of voluntary disclosures of CSR, a number of studies have been conducted to examine firm specific characteristics of companies

such as size, profitability/economic performance, financial leverage, ownership/principal shareholders and industry type (number and type of characteristics used in each study more or less are different) and also their relationships with CSR disclosure.

Trotman & Bradley (1981) conducted one of the earlier studies in the area of corporate social reporting in Australia. Their attempt was to investigate the possible relationship between some of the companies' characteristics with their disclosure of social responsibility information. They sampled 207 listed companies on the Australian Stock Exchange. The disclosures in the area of environment; energy; human resources; products; community involvement and other acknowledgment of corporate social responsibility were considered as social disclosures. Four characteristics of companies considered as independent variables were: 'company size', 'systematic risk', 'social pressures' and 'management decision horizon'. By conducting a series of nonparametric statistics, they found that companies that provided social responsibility information were on average, larger in size, had a higher systematic risk and placed stronger emphasis on the long term, than those companies that did not disclose this information.

In order to determine the effects of some company characteristics over the level of CSR disclosure, Patten (1991) examined the variables of size and industry type as two public-pressure variables and profitability from the annual reports of 128 firms for the 1985 financial year in the United States by using OLS (ordinary least squares) regression statistics. Patten (1991) in his study used a unique method to measure the level of disclosure in the annual report. He grouped the

sampled companies into 'high disclosure' and 'low disclosure' classifications. Companies including a quarter-page or more of social information were classified as high disclosers; companies with less than one-tenth of a page of social information were classified as low disclosers. In order to present a clear distinction between the groups, and taking into consideration the subjectivity of the measurement, firms with disclosure ranging from one-tenth to a quarter-page were excluded. His results indicated that size and industry type (public pressure proxies) were both significant whereas profitability was not.

Roberts (1992), in another US based research attempt, tested the power of stakeholder theory to explain corporate social disclosure. The dependent variable was adopted from an extensive analysis of the social responsibility activities of 130 major corporations that were published by the Council on Economic Priorities (CEP) in 1986. The samples were drawn from 130 major corporations that were subject to 1984, 1985 and 1986 CEP investigation. The CEP studies focused on large Fortune 500 companies because in general these companies were influential in establishing corporate trends in the social responsibility area. The ten independent variables were set including:

- Percentage of ownership held by management and principal shareholders in 1984;
- Contributions to corporate political action committees for 1981-1984;
- Average debt/equity ratio for 1981-1984;
- Corporate public affairs staff members in 1984;
- Corporate sponsor of a philanthropic foundation;
- Average growth in return on equity for 1981-1984;

- Market model measure of systematic risk (beta) for 1984;
- Age; industry type and finally size of the company.

The empirical results of his study claimed support for a stakeholder theory approach to analysing corporate social decisions (including reporting in annual reports). However, he stated that due to limitations involved in this study, generalisation of the findings would need great caution. The issues involved were recognised as accuracy of proxies for the stakeholder power, strategic posture and economic performance dimensions of the social disclosure model. Data constraints could limit the construct validity of the selected variables. Likewise, the empirical tests were performed on large, US-based corporations and this might not represent whole size corporations.

Hackston & Milne (1996) worked on the relationships between four company characteristics in the annual reports of the largest 50 companies listed on the New Zealand Stock Exchange at 31 December 1992 using regression techniques to analyse the data. Their findings for 'size', 'industry' and 'profitability/economic performance' were consistent with Patten's (1991) results. In regard to the 'country of reporting', they considered no relationships existed between this company characteristic and CSR disclosure. They also concluded that New Zealand companies make most social disclosures on human resources, with environment and community themes also receiving significant attention. This is consistent with companies from the USA, UK and Australia. According to their findings the vast majority of the disclosures tended to be declarative (narrative).

In Canadian research, Cormier & Gordon (1999) examined the relationships between CSR disclosure and some company characteristics and also the level of CSR disclosure in public versus private companies, employing a small sample case approach which included three Canadian electric power generator companies for the period 1985-1996. The annual reports of the sampled companies were the data source. As a conclusion to the research, two major findings were emphasised; first, the publicly-owned firms disclosed more social and environmental information than did the privately-owned company. Second, the company with the larger size provided more information compared to the smaller size company.

3.3.2. Evidence from Less Developed/Developing Countries

Compared to the existing knowledge of CSR practices in developed countries like the US, UK, Western Europe and Australia, less is known about less-developed/developing countries. This could be observed by searching electronic databases and other reference sources particularly where the attention is to focus on CSR studies based on company characteristics.

One of the recent studies on corporate social and environmental reporting by Malaysian companies has been conducted by Haniffa & Cooke (2005). Their study is different from the previous studies in terms of the inclusion of culture and corporate governance in the variability of CSR, while the previous literature considered economic performance and company-specific factors such as size, industry membership, risk, market reaction, external influences and country of origin. Their measure of culture is ethnicity of decision makers. Apart from the

relationship between culture (ethnicity), governance structure, size, profitability, gearing, listing status, industry type and the level of CSR disclosure, Haniffa & Cooke (2005) assessed the level of CSR disclosure in Malaysia over two time periods of 1996 and 2002. They adopted legitimacy theory as their theoretical framework with the view that this theory could assist to understand what factors may cause variability in CSR disclosure and to what extent their variables of interest. They found a significant relationship between CSR with four company-specific factors (size, profitability, multiple listing, type of industry), two cultural (boards dominated by Malay directors, boards dominated by executive directors) and two corporate governance variables (chair with multiple directorships and foreign share ownership) with the exception of gearing.

Thompson & Zakaria (2004) have also investigated the extent, nature and form of CSR by Malaysian companies. They have measured the amount of disclosure by a method (number of sentences) developed by Hackston & Milne (1996) that was not done previously in Malaysia. Their results showed some improvements in CSR, but the Malaysian CSR is still in its infancy stage of development compared with many advanced Western countries. They have also found that Malaysian companies disclose more declarative and non-quantitative themes than those of the environment and energy.

Purushothaman et al. (2000) examined the relationships between five selected firm specific variables; 'economic performance', 'size of company', 'leverage', 'listing status' and 'type of industry' with the level of CSR disclosures in annual reports of sixty (60) Singaporean listed companies. The annual reports were examined by using the content analysis method based on the 'issue of

disclosures', and data was analysed by using descriptive and multivariate analysis statistics. The 'leverage' and 'size of company' variables have been measured with significant relationships with CSR disclosures but insignificant relationships between the other factors namely; 'economic performance', 'listing status' and 'type of industry' with CSR disclosures. Their study also reported that the human resources theme was most frequently disclosed and this was followed by the products and customers, community involvement, environment and finally no disclosure was found for the theme of energy.

Choi (1999) investigated South Korean firms CSR (environmental) disclosures through a sample of 64 annual reports for 1997. Content analysis was used to provide an evaluation of the environmental disclosures. Descriptive methods and OLS regressions were used to analyse the data. The study concluded with three main findings; first, type of industry was significantly related to CSR disclosure. Second, when the industry type was controlled to discriminate discloser firms from non-discloser firms, it was found that firm size and auditors' influence resulted in a significant association with disclosure decisions, whereas it was found financial performance correlated with a weak relationship. Third, when the analysis was confined within the discloser group only, financial leverage and corporate age emerged as significant variables for the level of CSR disclosure.

Chow & Wong-Born (1987) studied Mexican companies' CSR disclosures through their annual reports. They sampled 52 companies and three characteristics were selected; 'size of company', 'financial leverage' and 'assets in place' as independent variables. The descriptive statistics and cross-sectional

regressions were used to analyse the data. They found a positive relationship between size and level of CSR disclosures which is consistent with all prior reviewed studies, while there were no relationships between the other two independents and CSR disclosures.

3.3.3 Evidence from Comparative International CSR Studies

The third category of research that used companies' characteristics to explain CSR practice is international or comparative studies. Williams (1998) in a comparative study investigated voluntary environmental and social accounting disclosure practices in the Asia-Pacific region including Australia, Singapore, Hong Kong, the Philippines, Thailand, and Malaysia. Listed companies' annual reports were surveyed using content analysis and a disclosure index from the above mentioned countries. A mix of companies' and countries' characteristics was selected to test the relationships of these characteristics and CSR practices. The variables included: 'organisation size', 'economic performance', 'industry type', 'culture', 'political and civil system', 'legal system', 'level of economic development', and 'equity market'. The disclosures measured by four different measurement bases; pages, sentences, words and disclosure index score. The descriptive and univariate statistic techniques were used.

Conclusions of this study show company size and industry type were highly significant in explaining variations. Williams' (1998) results for companies' characteristics are consistent with the finding of Patten (1991) and Hackston & Milne (1996). The level of economic development was found to be of influence but indirectly equity market factors were found to have little or no influence on

CSR practice. The results also indicated that the measurement of the three units of analysis namely pages, sentences and words, produced very few differences. The research concludes that results from content analysis and disclosures' index might be different based on differences between the two measurement bases.

Adams, Hill & Roberts (1998) examined factors that influence all types of social disclosures in companies' annual reports of six European countries. The study used a sample of a total of 150 sample annual reports from France, Germany, The Netherlands, Sweden, Switzerland, and the UK. In this study social disclosures were classified into the three major categories of environmental reporting, reporting on employee issues and ethical reporting. The ethical reporting was defined as any information, except employee or environmental, that was concerned directly or indirectly with giving an impression of corporate ethical values. The study considered overall disclosure practices without any distinction between voluntary and mandatory reporting. Content analysis was used to collect the necessary data. The study specifically tested the relationships between the disclosure of corporate social information and three characteristics of companies' size, industry type and country of domicile across the six European countries. Analysis of variance ANOVA and multiple analysis of covariance, MANCOVA techniques were used to analyse the data.

The statistic results in regard to disclosures across industries indicate that there are significant differences across the two groups of sensitive and less-sensitive

industries¹ with respect to all disclosures combined. They also found similar results between these two groups in respect to environmental and employee disclosure. In contrast, the study found no evidence to suggest that ethical information disclosures are systematically related to industry membership. The impact of size as measured by turnover on disclosures found to be very significant factor. The largest companies disclose the most and the smallest companies disclose the least. In regard to level of disclosure across each country, again, the study found significant differences. Among the six countries, the German companies tended to disclose the most while The Netherland disclosed the least environmental disclosure and Switzerland the least of employee disclosures. The study concluded that legitimacy theory is important in explaining motivations for corporate social disclosure. However, when it comes to identifying the reasons for differences across countries, the situation is much more complex, and legitimacy theory alone appears to be inadequate in explaining them. The final conclusion is that the differences within the European countries' social and political environment may be also the influential factors in the level of disclosures. Therefore, in studies with such a social and political reporting environment, political economy theory is the theory that can explain motivations for corporate social disclosure decisions.

¹ Adams, Hill & Roberts (1998, p.7) grouped their samples into these two general categories based upon the extent to which their activities are likely to impact upon society and the extent to which the companies may therefore face particular demands to act in socially responsible ways. Companies operating in the raw materials and consumer goods markets were characterised as operating in 'sensitive' areas while companies operating in other industrial groups such as engineering, constructions, service, food and retail were characterised as operating in 'less sensitive' areas.

3.4 Users' Perception

This section provides a discussion of the existing empirical research regarding the current and potential adequacy of financial disclosure in general and corporate social and environmental disclosure in particular within company annual reports.

The literature on users' demands focuses mainly on financial information in developed countries.

Financial reporting practices have evolved in each country based on the nature of its capital market, the level of economic development, tax regulations, legal systems, the regulatory enforcement regime, the level of inflation, political and economic ties, the status of the accounting profession, and the quality of accounting education, among others (Saudagaran, 2004 cited in Mirshekary & Saudagaran, 2005).

The literature about users' demands can be divided into different categories and perspectives. Several studies have concentrated on financial information. User views of investors/financial analysts were investigated by a number of researchers including Adhikari & Tondkar (1992); Botosan (1997); Lang & Lundholm,(1996); and Zarzeski (1996); while managerial views were examined by e.g. Abu-Nasser & Rutherford, 1995; Chandra & Greenball, 1977; Firth, 1978. Finally, broader user groups were addressed by Abu-Nasser & Rutherford, 1996; Ngangan, Saudagaran, & Clarke, 2005; Nicholls & Ahmed, 1995; Wallace, 1988; Mirshekary & Saudagaran, 2005. These studies basically examined how users of corporate annual reports view financial information.

During the last decades there has been a growing interest in corporate social responsibilities, and therefore a shift from traditional financial reporting to

corporate social and environmental reporting by companies. As a result, businesses started to practise CSR within their annual reports. Considering the general absence of regulation for this type of information as mentioned by Deegan & Rankin (1999), it is worth knowing whether anybody uses the current information and what is the information demand of users. In this regard, a number of studies (all in developed countries) have examined a variety of users' views in regards to such disclosures, both from managerial and non-managerial perspectives. However, it is only recently that researchers have expanded their analyses to include a broader user group for CSR. Additional research in this particular area is therefore warranted. While most of these studies were conducted in developed countries, there is a growing interest in less-developed countries.

This section represents an analysis of the literature relating to managerial and non-managerial views of stakeholders. This will lead to a discussion of the perceptions of various users of economically powerful stakeholders about their needs and the importance of CSR. The theoretical perspective will then explain the need for value creation by corporations. The identification of a significant gap within the existing CSR literature relating to the impact of the company's activities (social/environmental) on users of annual reports in developing countries is then discussed.

3.4.1 Usefulness of Corporate Social Disclosures

Several studies examined the use of Corporate Social Reporting (CSR) as a tool of communication of information to the relatively economically powerful

stakeholders (managerial views) (Owen, Swift & Hunt, 2001; Bebbington, Gray & Owen, 1999; Adams & Harte, 2000; Gray, 2000, 2001; Gray & Bebbington, 2000; Wilmshurst & Frost, 2000; Owen & Swift, 2001; Swift, 2001; Adams, 2002; Unerman & Bennett, 2004), while a few studies focused on non-managerial stakeholders such as non-governmental organisations as specific stakeholder groups (Tilt, 1994 and 2003; Azzone et al., 1997; O'Dwyer, Unerman & Bradly, 2005).

The managerial views of stakeholders have been investigated with two different approaches. Some studies surveyed one user group such as individual investors, mutual fund directors, chief financial officers, and institutional investors' views (Buzby & Falk, 1978; Rockness & Williams, 1988; Epstein & Freedman, 1994; O'Dwyer, Unerman & Hession, 2005; Solomon & Solomon, 2006). In the other approach, the studies have focused on broader user-groups such as Deegan & Rankin (1997); and Tilt (1994, 2003). These studies examined user perspectives (managerial and non-managerial) regarding the current and potential adequacy of CSR to meet their information needs.

Wilmshurst & Frost (2000) surveyed chief financial officers (CFOs) to ascertain their opinions on the importance of specific issues motivating the decision to disclose environmental information within the annual report. The results of their survey indicated that the most important factors in the decision to disclose environmental information were shareholders' or investors' right to information, legal obligations and community concerns. Results suggest that in the decision process, management gives most consideration to shareholders' information needs and legal issues.

Deegan & Rankin (1999) applied the notion of an expectations' gap to the relationship that exists between Australian preparers and users of annual reports in relation to users' expectations for environmental performance information disclosure. They surveyed various user groups and preparers of annual reports. The respondents for the preparer survey were company secretaries, chief financial officers or finance directors, directors/executive directors, general managers, administration managers and corporate solicitors, public affairs managers and corporate strategy managers. The respondents to the user survey were shareholders, brokers and analysts, accounting academics, financial institutions and review organizations.

Deegan & Rankin (1997) in an earlier study established a wide variety of users to investigate how user groups of annual reports assess the importance of environmental disclosure. They selected five user groups of shareholders, stockbrokers and research analysts, accounting academics, representatives of financial institutions, and a number of organizations performing a general review or oversight function among the user groups identified in *The Corporate Report (ASSC, 1975)*² and consistent with the definition of users by Statement of Accounting Concepts No. 2 (SAC 2)³. The respondents were asked to rank the importance and the relevancy of environmental issues within the annual reports. Their results indicated that users consider social and environmental disclosures

² This publication is the result of a major research project undertaken by the Accounting Standards Steering Committee of The Institute of Chartered Accountants of England and Wales (Deegan & Rankin, 1997, p.568). This was an effort to address theoretical issues underlying accounting practice in the UK.

³ This is a professional statement about objective of general purpose financial reporting which was issued by the Australian Accounting Research Foundation in 1990. This statement considers four major groups as the users of general purpose financial reports as follows: resource providers; recipient of goods and services; parties performing a review or oversight function; and managements and governing bodies.

within company annual reports to be useful and material to their decision-making.

Solomon & Solomon (2006) considered the involvement of institutional investors in CSR disclosure through the private disclosure process. They concentrated on user demand for CSR arising especially from the investment community. Their findings show that institutional investors display a significant demand for CSR information, which they gain through CSR engagement and through encouraging improved public CSR disclosure by their investee companies. In further consideration of users and their information requirements, a few studies (Tilt, 1994; Azzone et al., 1997; O'Dwyer, Unerman & Bradly, 2005) focused on non-managerial stakeholders (pressure groups) as a specific stakeholder group.

Tilt (1994) investigated for the first time the potential influence of community lobby or pressure groups on corporate social performance. Previous studies mainly focused on shareholders, employees and stakeholders other than community pressure groups. Tilt (1994) also considered various forms of corporate social disclosure media such as annual reports, supplements, advertisements and product labels, she found that CSR is insufficient and low in credibility but the use of the annual report was considered as the primary medium for CSR disclosure. She concluded pressure groups are one of the key user groups of CSR. She proposes a model for social reporting that contains a social report in the company annual report and supplementing the report with the other policy statements. Her findings support the contention made by some researchers in social accounting that legislation, or at least standards, are needed that companies are disclosing information about their activities that

affect society. She also believes a copy of her proposed social reporting would be kept in an outside agency for perusal by the public or interested parties. The report would be prepared by (or certified by) some party external to the company. The study concluded social reporting needs improvement (Tilt, 1994, p.64).

Azzone et al. (1997) investigated published environmental reporting by various stakeholders. They extended previous empirical research and identified eight target groups such as academia, employees, environmental Non-Governmental Organisations (NGOs), the financial community, the local community, regulators and policy makers, shareholders, and trade and industry. They believed “a failure to clearly identify the intended audience and assess their requirements will produce a document which is neither relevant nor clearly understood by its readers” (p.700). Their findings confirm the previous studies’ results, that the companies generally have not sought the information requirements of their report users. They have recommended two environmental reporting strategies for companies to adopt, either generic or specialized reporting.

O’Dwyer, Unerman & Bradley (2005) investigated the views of leaders of Irish-based social and environmental NGOs towards the current and potential adequacy of CSR to meet their information needs. They surveyed 53 organisations, 35 social and 18 environmental NGOs. They found, consistent with the other studies (Tilt, 1994; Deegan & Rankin, 1997), a widespread demand for CSR in the annual report, a separate stand-alone report or the company web-site. They asked NGOs about their preferred medium of CSR dissemination (the preferred media were the company web-sites, the annual

report and a stand-alone social/environmental report in respective order). Like Tilt's (1994) study, the respondents used varying degrees of these mediums with a particular focus placed on the annual report.

It has been identified that various groups within the community are using and relying on corporate social disclosures within company annual reports (Deegan & Rankin, 1997, 1999; Tilt, 1994, 2004; O'Dwyer, Unerman & Bradley, 2005). As Deegan & Rankin (1999) indicated in their expectation gap study, there is a potential limitation to survey users of corporate social/environmental disclosure because of the low level of disclosure. As this type of disclosure is considered to be at a very low level in developing countries such as Iran, there may be respondent bias as to the importance or the need for this sort of information. On the other hand the results of the previous studies, such as Tilt (1994), Deegan & Rankin (1997) and O'Dwyer, Unerman & Bradley (2005) supported such surveys and showed that users do demand corporate social and environmental disclosure.

3.4.2 Who are the Users?

Deegan & Rankin (1997) defined stakeholders based on the definition of users from *The Corporate Report*. They included equity investors, creditors, employees, analysts/advisers, business contact groups, government and the public.

They defined the public as taxpayers, ratepayers, consumers and other community and special interest groups such as political parties, consumer and environmental protection societies and regional pressure groups. Their

definition of users is beyond the shareholders or investors that have a direct relationship with the company. It is based on the broad definition of accountability to various groups within the community with different interests in the organisation directly or indirectly and having influence over companies' decision making. Azzone et al., (1997) identified that the various target groups of an environmental report included academia, employees, environmental NGOs, financial community, local community, regulators and policy makers, investors, and trade and industry. The selection of target users in their study was based on three main criteria - feasibility of user groups (manageable and clear audience for the company's report), their continued interest in environmental performance and their need for or an interest in acquiring information on the environmental performance of companies.

3.5 Theoretical Perspectives

Traditional corporate reporting has failed to inform stakeholders about the impact of the company's activities on society. Over the past decades, society has placed an increased demand on businesses for better corporate behaviour and to legitimise their existence (Islam, 2009; Gao & Zhang, 2006; Deegan, 2003; Epstein & Roy, 2003; Patten, 1991).

Previous researchers have used a number of different theoretical perspectives (e.g. legitimacy theory, stakeholder theory, institutional theory, agency and political cost theory and accountability theory) in explaining corporate social disclosure within company annual reports. The common theories used in this field are legitimacy theory and stakeholder theory. The origin of these two

theories has been suggested to be from a broader theory which has been called political economy theory (Deegan, 2003, p.250). The political economy theory itself is defined as 'the social, political and economic framework within which human life takes place' (Gray, Owen & Adams, 1996, p.47). Further, they stated that the political economy paradigm argues that the economic realm may not be studied in isolation from the political, social and institutional framework in which the economy is situated.

3.5.1 Legitimacy Theory

Legitimacy theory posits that for a corporation to continue to exist it must act in congruence with society's values and norms (Dowling & Pfeffer, 1975, p.122). Prior to development of the contemporary concept of legitimacy theory, the classical economic model assumption was that legitimacy is market-based (Patten, 1991, p.298). Accordingly, the 'system is not based on the motivation of the entrepreneur to be socially useful, but rather on the existence of competitive forces in the system as a form of social control that directs the self-interest of the entrepreneur into socially useful channels' (cited in Patten, 1991, p.298 from Abbott & Monsen 1979). Since public expectations have significantly changed in recent decades, this concept has started to change as well (Deegan, 2003, p.254). In this regard Tinker & Niemark (1987, p.84) stated:

...the public, in general became increasingly aware of the adverse consequences of corporate growth....They pressured both business and government to make outlays to repair or prevent damage to physical environment, to ensure health and safety of consumers, employees, and those who reside in the communities where products are manufactured and wastes are dumped, and to be responsible for the consequences of technological unemployment and plant closings.

Legitimacy theory, being derived from the political economy paradigm, provides a view that the interrelationship between an organisation and related social expectations is simply a fact of social life (Islam, 2009, p.49). According to this theory, businesses have to respond to various social issues that are considered to be their social responsibilities. Patten (1991, p.299) argues that a business can use social disclosure to address public policy issues or alternatively, may be used to attempt to create an overall image of social responsibility for the organisation. This is a reaction by firms to deal with the exposure of a business to both the social environment and the political environment. As social exposure is not constant across all firms and industries (Miles, 1987, p.275), the extent of social disclosure can be hypothesized to be likewise variable.

In recent decades legitimacy theory has been applied by a large number of studies in the area of CSR. One of the earliest studies that applied legitimacy theory was conducted by Patten (1992). In respect to the Exxon Valdes disaster in Alaska, he argues that if this incident threatened the legitimacy of the oil companies, then legitimacy theory would suggest that the companies would increase their environmental disclosures. His study results were consistent with the proposition of the theory. In another study, Deegan & Rankin (1996) applied legitimacy theory to explain systematic changes in corporate environmental disclosures (in annual reports) in the wake of successful environmental prosecutions. They investigated the environmental disclosures of firms that had been successfully prosecuted by the Australian Protection Authority. Then these firms' disclosures were compared to the disclosures of a control group of 20 firms that had not been prosecuted. They found that the control group showed a

significant increase in favourable environmental information in the year of prosecution over that of any other year in the sample period. Their study results, similar to Patten's (1992) conclusions, are consistent with the proposition of legitimacy theory. It was perceived that when the legitimacy of firms in regard to environmental performance was threatened, they increased their environmental disclosure to legitimise their operations.

3.5.2 Stakeholder Theory

Stakeholder theory is another theory commonly applied in the management literature including CSR practice studies (Perrini & Tencati, 2006; Clarkson, 1995; Roberts, 1992; Ullman, 1985). Freeman (1984, p.1) argued that '...current approaches to understanding the business environment fail to take account of a wide range of groups who can affect or are affected by the corporation, its stakeholders.' Deegan (2003, p.267) divides stakeholder theory into two branches; the normative (moral) branch which is also known as prescriptive and a positive (managerial) branch.

The normative (moral) perspective takes the view that all stakeholders have the right to be treated fairly by an organisation. Within this framework of the theory, the stakeholders have intrinsic rights and these rights should not be violated. Such a view of stakeholders would include any influential and non-influential groups of people on business strategies and management decisions. Clarkson (1995) divides stakeholders into primary and secondary groups. He defines a primary group as 'one without whose continuing participation the corporation can not survive as a going concern' (p.106). The secondary

stakeholders were defined as 'those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival, (p.107). From Clarkson's point of view, for the long run success of a business, managers must look after the primary (powerful) stakeholders. Deegan (2003) believes 'this view would be challenged by proponents of the ethical branch of the stakeholder theory who would argue that all stakeholders have a right to be considered by management'. Further he argues that:

Returning to the broader ethical perspective that all stakeholders have certain minimum rights that must not be violated, we can acknowledge that this perspective can be extended to a notion that all stakeholders also have a right to be provided with information about how the organisation is impacting on them (perhaps through pollution, community sponsorship, provision of employment, safety initiatives, etc.) even if they choose not to use the information, and even if they cannot directly have an impact on the survival of the organisation (p.269).

The positive (managerial) perspective of stakeholder theory is built on the assumption that an organisation and its stakeholders are interdependent upon one another for resources and managers are responsible for maintaining the exchange relationship for organisation's survival (Islam, 2009, p.61). According to this perception, the organisation identifies powerful stakeholder groups and attempts to manage its relationship with each group in order to benefit the organisation. Information (financial accounting or CSR) is a major element that can be employed by the organisation to manage/manipulate the stakeholder in order to gain their support and approval, or to distract their opposition and disapproval (Gray, Owen & Adams, 1996, p.46). Clearly not all stakeholders

have the same power⁴ in respect to their relationships with the organisation. The more powerful the stakeholder's group the more the organisation will attempt to satisfy its information needs.

Roberts (1992) applied stakeholder theory in his study. He found a significant association between measures of stakeholder power and their related need for information disclosure. Perrini & Tencati (2006, p.298) adopted the stakeholder view with regard to corporate sustainability and performance management. They concluded that the sustainability of a firm depends on the sustainability of its stakeholder relationships: its relation with not only shareholders, employees and clients, but also with suppliers, public authorities, local community and civil society in general and financial partners. The stakeholder theory has also been applied in some other studies such as Donaldson & Preston (1995) and Tilt (2001).

3.5.3 Adopted Theory in This Study

The above brief review of theoretical perspectives provides insight into the background and foundations of legitimacy theory and stakeholder theory. Gray, Kouhy & Lavers (1995_a) suggested that legitimacy theory has many similarities with stakeholder theory and instead of considering it as a separate theory it is better to be considered as overlapping with stakeholder theory. Considering the similarities and overlapping of these two generally used theories and the nature

⁴ Deegan (2003, p.272) defines power as 'power in itself will be stakeholder-organisation specific, but may be tied to such things as command of limited resources (finance, labour), access to influential media, ability to legislate against the company, or ability to influence the consumption of the organisation's goods and services.'

of the current exploratory nature of the study, legitimacy theory is considered to be more appropriate theoretical perspective for this research.

3.6. Summary

This chapter provided a discussion of the literature relating to CSR in company annual reports. The literature regarding corporate social reporting has been discussed, including the extent and nature of CSR and the variability of corporate characteristics of such disclosures. This chapter also reviewed previous research which considered the relevancy and materiality of corporate social disclosure to various groups of annual report users. The theoretical frameworks of previous research in this field have been discussed and legitimacy theory has been considered as the most appropriate theoretical framework for this research.

Chapter Four

Research Methodology

4.1 Introduction

The purpose of this chapter is to describe the nature of the data, the research methodology employed and the procedures adopted to collect, sort and analyse the data collected for this study. This study utilises data from two sources. The first source of data is an analysis of the level of CSR information within the annual reports of the listed companies on the TSE. The data will be used to determine CSR disclosures' associations with the company's attributes, namely the size, profitability, financial leverage and industry type. To measure the extent of CSR Information in the annual reports, this study uses content analysis instrument.

The second source is a questionnaire survey of the Iranian users of corporate annual reports to ascertain whether they systemically were provided with or sought CSR information because of their occupations. How and where this information was disclosed? How do they perceive current CSR disclosure (for example sufficiency of the amounts and types of information, understandability and credibility of information); and finally whether there is any need for

disclosure guidelines and if so who should produce these guidelines or regulations: government or professional bodies.

4.2 Overview and Expectations

Previous chapters noted that numerous CSR research projects have been conducted in recent decades. The subject matter has also been extensively examined through the firms' reporting practices. Many studies have examined CSR in developed countries but few studies have been undertaken of CSR in developing countries. The attention to CSR research has been due to growing global public awareness of corporations' social responsibilities. This situation offers an opportunity to investigate the nature, extent and users' expectations of these types of disclosures in Iran.

Chapter five of this thesis deals with the measurement of the extent of CSR in the annual reports. With the analysis of companies' annual reports, this study proposes a testable model to explain the decision to disclose information in terms of variables concerned with CSR as a dependent variable with size, financial leverage, industry type and profitability of a company as explanatory variables. The expectation of this research objective is to identify whether the level of CSR disclosures made by firms in their annual reports depends upon the above mentioned corporate characteristics.

Based on previous research, Patten (1991), Tilt (1994) and Deegan & Rankin (1999), users' expectations and perceptions (public pressure) for items of information is expected to influence the nature and extent of CSR disclosures. This reaction by firms has been viewed as actions to legitimise their social

behaviour and activities achieved through CSR disclosure in the corporate annual report.

As such, this study posits that a plausible reason why Iranian companies choose to disclose CSR information is to socially legitimise them. The direction of the second research objective is to explore what are the Iranian users' perceptions of CSR practices and whether the nature and extent of CSR disclosures are aligned with their perceptions. The users' perceptions are analysed in chapter six.

4.3 Data Source (I) – Corporate Annual Reports

This section outlines the methodology which is applied in selecting the data source, annual reports, from the companies that are surveyed in this study.

Companies adopt different approaches to reveal their social performance. Theoretically, any form of documentation that provides information about a company can be considered as possibly containing CSR information and could therefore be reviewed in this type of research (Gray, Kouhy & Lavers, 1995_a, p.82). For instance, the disclosures of social activities may be made through a company's annual report, advertisements in the public media such as newspapers, product labels, and TV or company owned websites. Past studies indicate that approaching all of these sources, is practically impossible as noted by Zeghal & Ahmad (1990) because of practical limitations to the application of this approach. In regard to this study, the most significant problem is that there is no logical way (considering the budget, time limitation and accessibility of

information) to provide this extent of documentation or information which includes companies' communications by any means.

However, the annual reports are the most frequent data source used to investigate the extent of CSR by companies (Laine, 2009; Deegan, Rankin & Tobin, 2002; Purushothaman et al., 2000; Deegan, & Rankin, 1996; Hackston & Milne, 1996; Gray, Kouhy & Lavers, 1995_b; Zeghal & Ahmad, 1990). The annual reports have been shown to be the preferred place for reporting based on the fact that they are produced on a regular basis, are required by legislation and are produced by all companies, thus making comparisons relatively easy (Tilt, 2001, p.193). For these reasons, the annual reports of companies have been considered one of two sources of data in this study.

The term 'corporate social reporting' used in this study includes not only monetary information but also non-monetary information. CSR can be placed in different sections of the annual report including the directors' report, the financial statements and the attached notes. This study is concerned with CSR across all components of the above mentioned documents of the selected Iranian listed companies' annual reports.

The basic criterion to select a company to be in the population sample for this study was the listing of that company on the Tehran Stock Exchange (TSE). Listed companies were selected as it was assumed that they would provide readily available information in an appropriate, useable form. Furthermore, collecting annual reports for non-listed or private companies is likely to be more difficult than collecting the reports of listed companies. The reason is the non-

listed or private companies are more reluctant to release information to outside parties unless there is a mandatory rule to do just that. This is the reality in Iran; the information does not transfer readily.

The Research Development and Islamic Studies¹ (RDIS) website is one of the main public resource centres for access to electronic PDF files of annual reports of listed companies. The TSE is a relatively small stock exchange with four hundred and thirty (430) listed companies². One hundred³ and six (106) companies were chosen as the sample population using a stratified sampling technique. The annual report of each company issued during 21st March 2006 to 20th March 2007⁴ was selected. These were the latest commonly available annual reports on the website for all sampled companies at the time of data collection.

4. 3.1 Measurement of the Dependent Variable

The first section deals with the extent of CSR information in the annual reports. Content analysis was employed to measure the extent of disclosure by the sample population.

4. 3.1/1 Content analyses

Content analysis is used in this study to measure the quantity of CSR information presented in annual reports. Content analysis is the research

¹ The Research Development and Islamic Studies (RDIS) is a division of the Iranian Securities and Exchange Organisation (SEO). Under the Security Act, SEO was introduced and created as the regulator of Iran capital market.

² As at 8.12.2008 when the TSE web site was visited

³ 106 is more than 25 per cent of the total number of listed companies

⁴ Which is a full Iranian calendar year

method that is most commonly used to investigate the social and environmental disclosures made by organisations (Milne & Adler, 1999, p.237). Neuman (2003, p.310) defined content analysis as:

Content analysis is a technique for gathering and analysing the content of text. The content refers to words, meaning, pictures, symbols, ideas, themes, or any message that can be communicated. The text is any thing written, visual, or spoken that serves as a medium for communication. It includes books, newspaper or magazine articles, advertisements, speeches, official documents, films or videotapes, musical lyrics, photographs, articles of clothing, or works of art.

In other words, content analysis is a technique of coding the content of a piece of written work (or other types of documents) to different groups or categories depending on selected criteria. A central idea in content analysis is that many words of the text are classified into much fewer content categories (Weber, 1988). Measurement in content analysis uses structured observation: systematic, careful observation based on written rules. These rules determine and classify the observations and the categories should be mutually exclusive and exhaustive (Newman, 2003, p.36). To enable content analysis to be performed in a replicable manner, the targeted social disclosure categories and the decision rules need to be defined. The following section discusses these issues in detail.

4.3.1/2 Target Social Disclosures Categories and Decision Rules

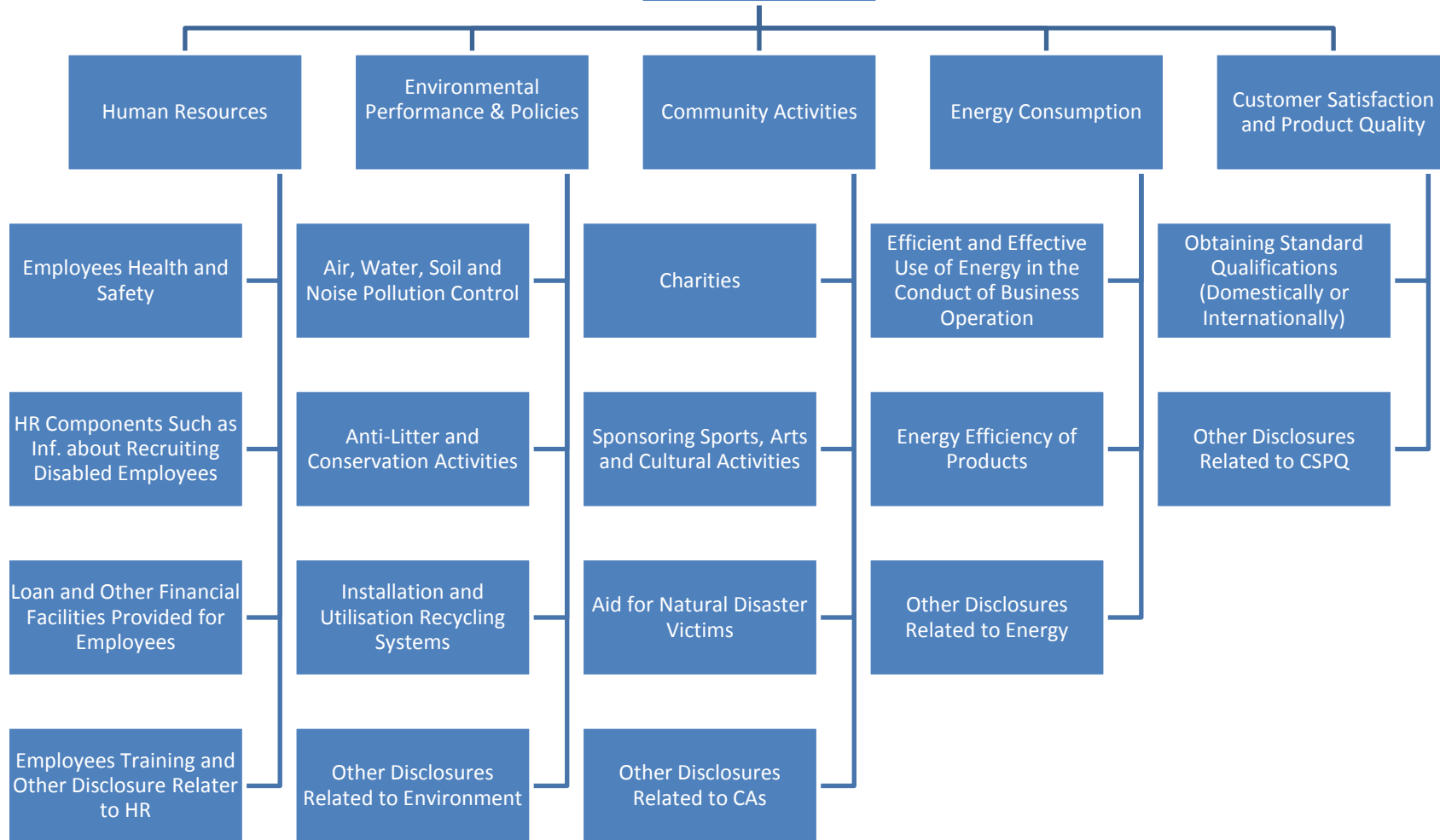
In this study, the target social disclosures are the five themes adopted from the Trotman & Bradley (1981) study as indicated in Figure 4.1. These target social disclosures are items that are of common interest and have been included in

previous studies (Deegan, Rankin & Tobin, 2002; Purushothaman et al., 2000; Tsang, 1998; Hackston & Milne, 1996; Gray, Kouhy, & Lavers, 1995_b; Zeghal & Ahmad, 1990; Belkaoui & Karpik, 1989).

The categories are defined along with the decision rules and are intended to be mutually exclusive and exhaustive. While the intention was to include all decision rules, one disclosure might be found to fit within one of the categories but have no precise relevant decision rule. This necessitates the addition of the “other” decision rule for all categories. The categories of decision rules have been reviewed by another accounting academic expert⁵. This review resulted in some minor changes to some of the items in environmental performance and policies, energy consumption and customer satisfaction & product quality decision rules as some decision rules overlapped between two or more categories (see Figure 4.1 next page).

⁵ The accounting academic expert is a senior lecturer in accounting at an Australian university. She is also the researcher’s wife.

Figure 4-1
Categories of CSR
Disclosures and Decision
Rules



F

4.3.1/3 Measuring Unit

The unit applied to analysing and measuring the contents of CSR information is varied. It can consist of words, space/page, sentences or issues. Content analysis measurement techniques of social disclosures in past studies included the number of words (Deegan & Rankin, 1996; Zeghal & Ahmad, 1990; Ng, 1985), the number of sentences (Deegan, Rankin & Tobin, 2002; Hackston & Milne, 1996) the number of pages (Cowen, Ferreri & Parker, 1987), percentage of pages (Gray, Kouhy, & Lavers, 1995_b), number of times issued (Purushothaman et al, 2000) and percentage of total disclosure (Trotman & Bradley 1981).

The use of words has been criticised as an indefinite character or measure and of decreasing reliability (Milne & Adler, 1999). The use of space/page overlooks the different font size typeface and margins used in annual reports (Hackston & Milne, 1996). Sentences are not an accurate measure of the importance placed on a particular theme (Purushothaman et al, 2000). Number of times issued also is not a comprehensive measurement method and the value of this measurement lies in the assumption that the extent of disclosure can be taken as some indication of the importance of an issue to the reporting entity (Gray, Kouhy, & Lavers, 1995_b). This view is consistent with that of Cowen, Ferreri & Parker (1987) who stated that “only the total number of corporate social responsibility disclosures may be misleading”. The conclusion in this regard is that there is no absolute and simple, right way to do content analysis. Instead, researchers must judge what methods are most appropriate for their substantive problems (Weber, 1988).

This study, as research of an explanatory nature, uses words as a unit of measurement and analysis of CSR because it represents a greater amount of detailed description that is consistent with the Zeghal & Ahmad (1990) recommendation for this type of research. While this study counts words to measure the amount of social reporting in annual reports, other units have been used in other studies. Deegan, Rankin & Tobin (2002, p.320) argue “these different measures have been found to be highly correlated; hence the result should not be greatly influenced by the choice of sentences instead of words, or proportion of pages”. This conclusion can be reversed to the choice of words instead of sentences, or proportion of pages should not influence the results significantly. Moreover, this study agrees with the Deegan & Rankin (1996, p.56) statement when they say “we do not take the position that the word counts will provide any exact or precise measurement, but rather they will provide the means of determining whether there appears to be any systematic variations in disclosure policies”.

4.3.1/4 Voluntary vs Mandatory Disclosures

In some of the data analysis of the previous CSR studies, the researchers drew a distinction between voluntary disclosures and mandatory disclosures (Guthrie & Parker, 1990; Gray, Kouhy & Lavers, 1995_b). The mandatory disclosures have been defined as those disclosures that are mandated by legislation. Beside the distinction approach, there are studies which chose not to make such distinction (Pattern, 1991; Adams, 2002; Hackston & Milne, 1996; and Adams, Hill & Roberts 1998). In this regard, it is believed that when the level of mandatory disclosure is very low, such distinction is unhelpful

(Adams, Hill & Roberts, 1998, p.5). In Iran there are very few CSR disclosure requirements of any kind⁶. Therefore this study examines overall CSR disclosures with no distinction between voluntary and mandatory reports.

4-3.1/5 Research Data Reliability

One of the main concerns in a study based on content analysis is the reliability of the collected data. Krippendorff (1980) argues that three methods of testing should be used to achieve reliability of content analysis. These tests are stability, reproducibility and accuracy. Stability refers to the ability of a coder to code data over time. Consistency in coding constitutes reliability. Therefore, assessing stability involves a test-retest procedure (Milne & Adler, 1999). The reproducibility or intercoder reliability test refers to the extent to which content classification produces the same results when the same text is coded by more than one coder (Weber, 1988). Accuracy refers to assessing coding performance against a predetermined standard set by a panel of experts, or known from previous experiments and studies (Milne & Adler, 1999). In regard to accuracy, Weber (1988) states “except for training purposes, standard codings are established infrequently for texts. Consequently, researchers seldom use accuracy in reliability assessment”.

The previous studies reveal various levels of attempts to test the reliability of collected data. While in some studies there is no sign of conducting the reliability tests, in the others, the procedures and results of reliability tests

⁶ There are two minor mandatory requirements as part of Iranian Accounting Standards #1, Preparation and Presentation of Financial Statements (IrAS1). The first, requirement deals with the disclosure of information about number of employees employed during the year. The second relevant requirement is the disclosure of accounting method used to account for employees' retirement allowance. While meeting these standard requirements can be achieved with very little disclosures, many businesses voluntarily expand their disclosures above the requirements.

have been disclosed to a different degree (Deegan, Rankin & Tobin, 2002; Tilt, 2001; Deegan & Rankin, 1996; Gary, Kouhy & Lavers, 1995_a). Deegan, Rankin & Tobin (2002) used both stability and reproducibility tests (using two coders' results) and the reliability of the data was approved by using Krippendorff's (1980) alpha. Tilt (2001) focused just on a reproducibility test (using three coders results) and the reliability first was determined between two initial coders by using a simple coefficient of reliability and Scott's index of reliability (π). Then, the third coder's analysis along with analyses of the other two coders was tested by using Scott's π and Krippendorff's alpha. In Tilt's (2001) study the levels of inter-coder reliability was found to be well over the acceptable level of 80 per cent.

This study by using the experiences of previous studies will follow the Deegan, Rankin & Tobin (2002) procedures. Therefore to check the reliability of data, the focus will be on both the stability test and reproducibility tests. The first round will be coding the disclosure by the researcher. To facilitate the recording, a coding sheet for each annual report will be created. The annual reports (Directors' report and Financial Statements with attached notes) will be reviewed and the identified items (without leaving any sign or marks on texts) will be counted and recorded in the relevant box. Once the analyses of all sampled annual reports are completed, the last step for the first round will be preparation of an excel worksheet and transferring all results from coding sheets to this sheet. The excel sheet includes the list of companies and all details of data transferred from the coding sheet. The second round will be conducted with the same procedure by the researcher at least twenty days after completion of the first round. The third round is a comparison of the two

excel sheets' results and resolution of any discrepancies by reviewing the relevant annual reports.

To conduct a reproducibility test, a sample of annual reports will be coded by a second coder (an accounting academic)⁷ with similar structures used for the stability test. Finally, the second coder's analyses along with the final results of the researcher analyses will be assessed using Krippendorff's alpha statistics technique. While there is no acceptable standard of the level of inter-coder agreement for social disclosure, 80 percent or above is suggested and applied as in past studies such as Tilt (2001), Milne & Adler (1999), and Hackston & Milne (1996). This study follows the common agreement, and the inter-coder reliability test with 80 percent and the above agreement will be taken as the acceptable level.

4.3.2 Independent Variables

Neuman (2003, p.149) defined independent (explanatory) variables as "[t]he cause variable, or the one that identifies forces or conditions that act on something else" and "[t]he independent variable is independent of prior cause that act on it". Acceptance of this concept of independent variables by other researchers (without precise reference to Neuman's definition) in the field of CSR resulted in recognition of various phenomena as independent variables. The variation itself shows that there are no generally accepted characters or

⁷ To do this test, the study faces a limitation as the contents of sampled annual reports are all in the Persian language and there is just one accounting expert accessible who knows Persian language and that person is the researcher's wife. However, her role as second coder is justifiable as she is a senior lecturer in accounting with a PhD in this field, therefore she is an expert and she is also independent of this research.

factors that cause CSR. It can be said that there are various causes for CSR that are partially identified by individual studies.

The past CSR literature has focused on a number of corporate characteristics that are possible determiners of CSR practices as independent variables. Trotman & Bradley (1981) used four items as independent variables which included, size, systematic risk, social pressures and management's decision horizon. These variables, except size, do not appear to have a character that makes them '*easily observable*'⁸ which means that within different accounting environments these variables could possibly have different meanings and definitions. Accordingly, these independent variables limit comparability of findings in different studies.

Gray, Kouhy & Lavers (1995_a, p.85) referred to common independent variables as background data. In their study, company size, profitability, ownership and industry sector were considered as explanatory variables and as *easily observable factors* which have explanatory power over the CSR behaviour of companies. Hackston & Milne (1996) considered the three independent variables as size, profitability and industry type.

Belkaoui & Karpik (1989) considered eight factors such as financial leverage, size or accounting return on assets under four main topics as 'social performance', 'monitoring and contracting cost', 'political visibility proxies', and 'economic performance'. Purushothaman et al., (2000) used 'economic performance', 'size of company', 'financial leverage', 'listing status', and 'type

⁸ Emphasis cited from Gray, Kouhy & Lavers (1995a).

of industry' as independent variables. Findings from the research already mentioned and some others (see for example, Haniffa & Cook, 2005; Dierkes & Patterson, 1997; Roberts, 1992; Belkaoui & Karpik, 1989; Ullman, 1985; Trotman & Bradley, 1981) show that there are some factors such as size and profitability that are considered more common as potential causes for CSR practices.

This study adopts four independent variables which are among the more common independent variables used in previous studies. These variables and bases of their measurement are as follows:

1. **Company size** - Company size is one of the most commonly identified independent variables in past studies. The perception about this variable is that, larger companies undertake more activities, make a greater impact on society, have more shareholders who might be concerned with social programs undertaken by the company (Hackston & Milne, 1996, p.81). While association between company size and CSR has been supported in a number of empirical studies (see, for example, Haniffa & Cook, 2005; Belkaoui & Karpik, 1989; Trotman & Bradley, 1981) some other studies suggested that the relative size alone is not a sufficient indicator of disclosure amount (see, for example, Hackston & Milne, 1996). However, not all CSR studies have supported the association between size and CSR. For instance, Roberts (1992) found no relationship in a US sample. The same result has been reported in Ng's (1985) study in New Zealand. Guthrie &

Mathews (1985) suggest Ng's results failed to support the association between company size and CSR due to the small sample used.

The company size has been measured with different bases such as sales volume, total asset value, number of shareholders or an index rank. Bases used in previous studies include:

- Total asset and/or sales e.g. Trotman & Bradley, 1981; Hackston & Milne, 1996; Purushothaman et al., 2000; Haniffa & Cook 2005;
- Number of shareholders e.g. Purushothaman et al., 2000;
- Market capitalisation e.g. Hackston & Milne, 1996;
- The American's Fortune magazine rank e.g. Cowen, Ferreri & Parker, 1987

While there is a relatively wide range of measurement units regarding the size of companies, Hackston & Milne (1996) argue that there is no theoretical reason for a particular measure of size. In this study, both sales and total assets will be used as the bases for measuring the size of companies. In regard to size, the following specific hypothesis is formulated to test the factor.

H1: There is a positive relation between size and the level of CSR disclosure.

2. **Company profitability** - Profitability is another factor which is considered as an independent variable in a number of previous studies. The variable is viewed as a factor that allows management the freedom and flexibility to undertake and reveal to shareholders more extensive responsibility programs (Hackston & Milne, 1996, p.82). The relationship between CSR and corporate profitability has been postulated to reflect the view that social responsiveness requires the same managerial style as that necessary to make a firm profitable (Bowman & Haire, 1976). CSR is believed to reflect an adaptive management approach to dealing with a dynamic, multidimensional environment and an ability to meet social pressure and respond to social needs. Such management skills are considered necessary to survive in today's corporate environment (Hackston & Milne, 1996). Previous empirical research on the relationship between profitability and CSR practices has found conflicting results. Studies conducted by Bowman & Haire (1976) and Preston (1978) in earlier times and more recently the studies by Ullman (1985); Roberts (1992) and Haniffa & Cook (2005), are examples of studies that have supported the relationship between profitability and CSR practices. On the other hand, Purushothaman et al. (2000); Cowen, Ferreri & Parker (1987); and Patten (1991) have found no relationship between profitability and CSR practices.

In previous studies, company profitability has been measured with various bases such as return on assets, return on equity, return on sales and stock price return. In this study, profitability/economic

performance is measured using return on assets which is viewed as the relevant technique based on its application in other studies involving CSR (Purushothaman et al., 2000; Hackston & Milne, 1996; Belkaoui & Karpik, 1989).

In regard to company profitability, the following specific hypothesis is formulated to test the factor.

***H2:** There is a positive relation between company profitability and the level of CSR disclosure.*

- 3. Financial Leverage** - In past studies, financial leverage is one of the most commonly used independent variables. For example, Roberts (1992) argued financial leverage was an appropriate variable because creditors of a corporation control access to financial resources that may be essential for continued existence of the business. In this view, capital structure decisions are part of an overall corporate stakeholder strategy and creditors are important stakeholders whose influence should be managed. The greater level of contribution by outsiders simply attracts more attention to the finance providers and their expectations concerning a corporation's role in social responsibility activities. Ullman (1979) has already emphasised this point based on stakeholder theory, that if a group of stakeholders is interested in social responsibility activities, then the corporate body will follow their needs by disclosing the relevant information. Although stakeholder theory postulates that there is a positive relationship between financial leverage and the level of disclosure, there is no consistency in results

of studies concerning the relationship between financial leverage and CSR practices. For example, studies like Craig & Diga (1998); Meek, Roberts & Gray (1995); Roberts (1992); and Cornell & Shapiro (1987) have found a positive relationship between financial leverage and CSR practices. While some other studies (such as Purushothaman et al, 2000; Hossain, Tan & Adams, 1994; and Chow & Wong-Borne, 1987) have found no relationship between these two variables and it is argued that the reason for this could be that the companies with high gearing ratios may have a closer relationship with their lenders. Therefore, these lenders are able to access the information needs through other ways rather than through the annual reports (Zarzeski, 1996).

In previous studies, financial leverage has been measured based on the gearing ratio which is calculated as the ratio of long term debt to equity (Haniffa & Cook, 2005; Purushothaman et al., 2000; Robert, 1992). The debt to equity ratio seems to be a measure of creditor stakeholder power because it captures the importance of creditors as stakeholders relative to equity investors. In this study, the equity ratio (gearing ratio) is assumed to be the proper method to measure financial leverage of a company. Therefore, this method will be adopted and applied as the measurement tool of financial leverage. In regard to financial leverage, the following specific hypothesis is formulated to test the factor.

H3: There is a positive relation between financial leverage and the level of CSR disclosure.

4. **Industry type** –The amount of disclosure of information and CSR practices may not be identical throughout all sectors of the economy (Cook, 1989). It is argued that the industry type of a company is a factor which potentially could have an affect on CSR practices. In previous studies, different approaches have been used to classify companies.

In an earlier study, Dierkes & Preston (1977) suggested that companies whose economic activities modify the environment, such as extractive industries, were subject to greater social scrutiny and were more likely to disclose information about their social and environmental impacts than were companies in other industries. Cowen, Ferreri & Parker (1987) argued that consumer-oriented companies can be expected to exhibit greater concern with demonstrating their social responsibilities to the community, since this is likely to enhance corporate image and influence sales. Patten (1991) in his study classified industries involved in petroleum, chemical, and forest and paper product industries as a high-profile grouping. In his view, similar to the company size character, the industry type character influences the political visibility of a company and this drives disclosure to ward off undue pressure and criticism from social activities. Roberts (1992) considered the automobile, airline and oil industries to be very sensitive to public pressure. Hackston & Milne (1995) counted all the above industries into high profile categories in addition to tobacco, agriculture and liquor.

Williams (1998) used the Industrial classification of All Economic Activities that divides industries into ten categories for classification of his sampled companies. But due to lack of a proper number of samples he rearranged industries into four groups as resources, manufacturing, financing and services. Purushothaman et al. (2000) used the same four categories of industry in their study.

The past empirical studies have found different relationships and associations between this character of a company and CSR practices. Patten (1991) and Roberts (1992) have found a positive relationship between the amounts of CSR and high profile industries. Contrary to their finding, a New Zealand study conducted by Ng (1985) found no relationship between CSR practices and a company's industry type. Purushothaman et al. (2000) found an insignificant result in their study. Their interpretation of this result was based on the fact that in their samples they did not have companies from industries which had a significant impact on the environment. Williams (1998) found a significant relationship between a company's industry type and the level of CSR disclosure. In an Australian study, Kelly (1981) found that primary and secondary industry companies tended to disclose more environmental and energy-related information than companies engaged in tertiary industries, while the opposite relationship was found for information relating to community interaction. Cowen, Ferreri & Parker (1987) found that industry category influenced energy and community involvement disclosures. Their results, however, clearly

indicated that the incidence and total amount of CSR are not associated with industry category.

In conclusion, there is no overarching theoretical foundation in the technique of application in measuring industry type as there are no similar findings for the relationships between CSR and companies' industry type. In this study, the approaches of Williams (1998) and Purushothaman et al. (2000) regarding companies industry type will be followed as it is a more practical method in respect of the number and varieties of companies listed on TSE.

TSE, in its own classification of industries, has thirty seven types of industries as listed in Table 4-1. For the purpose of this study, the TSE classification is not applicable as many of these groups have less than 10 companies in their lists. With such a distribution, it is not possible to have enough samples for each category to run all necessary statistical tests. Therefore, by using the sector classification model of the Global Industry Classification Standard (GICS)⁹ the collected samples will be grouped in four sectors¹⁰. Table 4-1 (see on the next page) presents the industry-type classification model in this study. In regard to type of industry, the following specific hypothesis is formulated to test the factor.

⁹ The classification is developed by Standard & Poor's (S&P) and Morgan Stanley Capital International (MSCI) in response to the standard industry definitions. See <http://www.asx.com.au/research/indices/gics.htm>

¹⁰ The GICS classifies sub-industries into five sectors. These sectors are the four sectors used in this study (see Table 4-1) plus 'Telecommunication Services' sector. Due to the fact that there is just one telecommunication firm listed on the TSE, and this is not among the sample, therefore, there are just four sectors in this study.

H4: *There is a positive relationship between type of industry and the level of CSR disclosure, that is companies with greater social impacts, would have greater disclosures*

Table 4-1		
Industry Classification		
Sector	TSE Sub-Industry	No. of Listed Companies
Energy & Materials (EMA)	Cement, Lime & Gypsum	31
	Coal & Lignite Mining	1
	Metal Ores Mining	8
	Other Mining	2
	Other Non-metallic Mineral Products	22
	Chemicals & By-products	34
	Refined Petroleum Product	6
	Basic Metals	28
	Metal Products	18
	Wood & By-products	2
	Paper & By-products	7
Sub-total		159
Industrials & Consumer Discretionary (ICD)	Rubber & Plastic Products	16
	Electric Metals & Apparatus	13
	Industry & Project Management	1
	Machinery & Equipment	33
	Motor Vehicles & Auto Parts	31
	Other Transport Equipment	2
	Technical & Engineering Services	2
	Ceramic & Tiles	10
	Radio, TV & Communication Equ.	7
	Tanning Dressing & Leather	1
	Furniture	1
	Publishing, Printing & Reproduction Media	1
	Textiles	23
	Transportations	5
Sub-total		146
Consumer Staple & Health Care (CSH)	Agriculture	1
	Non-sugar Products	34
	Pharmaceutical	30
	Sugar & By-products	17
	Medical, Precision & Optical Instruments	2
Sub-total		84
Financials, IT &	Real Estate & Construction	13

Table 4-1 Industry Classification		
Sector	TSE Sub-Industry	No. of Listed Companies
Telecommunications (FIT)	Banks, Credit & Other Financial Institutions	4
	Investment Companies	11
	Other Fin. Intermediaries (Leasing)	5
	Diversified Industries (Conglomerates)	4
	Computers & Related Activities	3
	Telecommunications	1
Sub-total		41
Total		430

4.4 Data Source (II) – Questionnaire

This section presents the research design for the collection and analyses of users' perceptions of CSR within Iranian companies' annual reports. Based on earlier discussion of research objectives in this chapter, the direction of the second research objective is to explore what are Iranian annual report users' perceptions of CSR practices and whether the nature and extent of CSR disclosures are inline with the users' perceptions.

To gather and assess the views of Iranian annual report users with respect to the nature, extent and the level of importance of CSR disclosures, a self-administered questionnaire was used. The main body of the questionnaire was adapted from Tilt's (1994) study. The questionnaire design process took place through three stages: (1) Setting seven demographic questions as the first part of the questionnaire. These questions gathered information about occupation, age, work experience, level of education and professional membership of the respondents; (2) Modification and rearrangement of the

adopted questions to suit the purpose of this study in the second part of the questionnaire; and (3) Translation of the questionnaire to Persian language by the researcher and edited by a Persian language expert in Iran.

The main body of the questionnaire contained questions with “yes” or “no” answers. Respondents who chose “no” were directed to go on to the next major question. Respondents who chose “yes” were directed to answer further question/s on that particular topic. The other questions consisted of multiple choice; a five-point Likert scale; or open-ended, descriptive answers to gain the fullest information.

Through these questions, the following types of information were sought: whether the respondent systemically was provided with or sought CSR information (e.g. because of his/her occupation/position); whether the amounts and types of information were sufficient, easy to understand and credible or vice versa; how and where this information should be disclosed and finally whether there is any need for guidelines/regulations and who should produce these guidelines/regulations: government or professional bodies. All questionnaires were distributed along with a cover letter including a brief explanation of terms and concepts used in the document.

4.4.1 Pilot Survey

Prior to commencing the survey, a pilot survey was conducted with a total of 20 participants from academics, auditors and stockbrokers respondent groups. All of the pilot survey questionnaires were handed in personally by the research assistants and all have responded and returned the questionnaires.

The purpose of this pilot test was to discover any possible deficiencies in the survey instrument. This test resulted in a few minor amendments and improvement in the questionnaire.

4.4.2 Survey Population and Sampling

Recognising and targeting users of annual reports/CSR in Iran was a major task in this study. However, the focus was on including samples from all major actual and potential users of these reports in this survey. As is discussed in section 3.3.4.2 the literature recognises various groups as users of annual reports. In this study, based on the corporate reporting environment in Iran the most common identifiable users were auditors, academics, bankers, business managers, investors, and stockbrokers.

The auditor members of the Iranian Association of Certified Public Accountants (IACPA) were the first targeted participants in this survey. At the time of this survey, this association had 1101 members working full time as auditors at the Audit Organisation (AO) and 184 other private audit firms or working independently as statutory auditors.

From 1101 IACPA's members¹¹, 220 were selected using the systematic sampling technique. The IACPA's members working at AO in the headquarters office in Tehran were approached directly and handed a questionnaire. They were given two weeks to complete the questionnaire. The other targeted samples within the AO were each sent the questionnaire and a stamped return envelope using the office location addresses provided by the administration office in the headquarters office of AO. The rest of the auditors

¹¹ By-laws only IACPA members can be registered as auditor

were each sent the questionnaire and a stamped return envelope by mail using IACPA's data base.

The academic population includes all academic staff members of accounting groups/departments in Iranian public universities¹². Through an on-line search of those public universities which offer accounting courses, a list of 112 accounting academics from 18 universities was drawn. Due to the relatively small size of the academic population, the whole population was considered as the target sample in this study. For those universities where the researcher or research assistants had connections, the questionnaire was distributed through these people. This covered 69 academics. The connections were used to maximise the response rate. The remaining sample targets were each sent the questionnaire and a stamped return envelope by mail using their university addresses. The academic staff of private universities were not included in this study due to a lack of reliable information and unavailability of information about the accounting academic staff members working for these universities.

The sample of bankers represents senior officers working in the credit and loan divisions of the banks. There are seven commercial government-owned, four specialised government-owned and six private-owned banks in Iran¹³. All these bank headquarters are located in Tehran. The samples were drawn from the officers located in the headquarters of these banks. Since there was no public information about the number of officers working in the divisions of

¹² The list of public universities was accessed from the Ministry of Science, Research and Technology's website (<http://www.msrt.ir>)

¹³ The list of banks was accessed from the Central Bank of the Islamic Republic of Iran's website

each bank, the number of senior officers was sought in advance from the relevant managers of these banks. According to the information provided by the managers, 144 officers were listed as the sample of bank credit and loan officers. Based on the given number of senior loan and credit officers in each bank the questionnaires were handed to the managers for distribution and a two week appointment time set for collection of the completed questionnaires.

The stockbroker sample was formed by managing directors of all registered stockbrokerage firms with the TSE (86 cases) and senior officers within these firms based on the information provided by the directors or representatives of the directors. A total of 173 questionnaires was distributed by mail among the targeted participants who represent the entire identifiable members of this group.

The business managers' sample was drawn from the chief financial officers (CFO) of listed companies on the TSE. By using a systematic sampling technique, 110 CFOs were selected. It was expected that the responses to the questionnaire would come from the CFOs or their representatives. The questionnaire along with a stamped return envelope was posted to each of the CFOs.

The investors sample was the most difficult to compile. The initial aim was to choose samples from both individual and institutional investors. Due to access limitations to the names and contact address information of individual investors, the idea of individual investor samples was dropped. As a result the study focused on a selection of samples from the directors and senior

investment analyst from the investment companies as representing the institutional investors. The companies considered for this purpose were 11 listed companies and one major unlisted investment company. All these companies were located in Tehran. According to the information provided by these firms, the sample in this category comprised 87 senior investment analysts. The investment analysts commonly are not responsible for the final investment decision but technically their reports are seen as the major source of information for decision making by the directors of the investment companies. The questionnaires were handed to the directors or the contact person in each company with a two week appointment set for collection of the completed questionnaires.

For all participants, at least two weeks (adding one week for the mailed questionnaires) was considered as the response period. The participants were provided stamped return envelopes to post the completed questionnaires later. The mailed participants, who had not returned the questionnaires within three weeks, were sent a kind reminder to complete and return them.

The overall response rate was 39.83 percent and considered as a satisfactory rate compared with similar studies. A brief of the user groups included, number of questionnaires distributed, number of responses, percentage of each group of samples from total sample and the response rates in this survey are presented in the Table 4-2.

Table 4-2				
Questionnaires Distributed and Responses				
Respondent groups	Sample Size	No. of Responses	Rate of Response%	Rate of Sample%
Academics	112	51	45.53	15.31
Auditors	220	95	43.00	26.00
Bank Loan Officers	144	56	38.88	17.02
Business Managers	110	34	30.90	13.00
Institutional Investors	87	29	33.33	10.29
Stockbrokers	173	68	39.30	20.45
Total	846	333	39.36	100.00

4.5 Statistical Methods

4.5.1 Analysing Data for Contents Mapping

In line with previous studies, using content analysis data, this study uses descriptive and multiple regression techniques to examine the extent of CSR disclosures and possible relationships between the levels of CSR disclosures with the four identified corporate characteristics, size, profitability, financial leverage and industry type.

The descriptive statistical techniques are used to analyse the extent of overall (aggregated) and each identified sector (disaggregated) CSR disclosures. The multiple regression models was used to test hypotheses 1-4. The regression model consists of one dependent variable and four independent/explanatory variables as company size, profitability, financial leverage and industry type. The five dependent variables are CSR-HR

(human resources); CSR-ENV (environmental performance and policies); CSR-COM (community activities); CSR EGY (energy consumption) and CSR-CSP (customer satisfaction & product quality). The initial model developed is as follow:

$$CSR = a + b_1GR_EMA + b_2GR_ICD + b_3_CSH + b_4GR_FIT + b_5Tot_Assets + b_6Tot_Assets + b_7ROA + b_8Gearing$$

Where:

CSR = dependent variable measured by number of CSR disclosures in words

a = the constant measure

b = the estimated coefficient

GR_EMA = industry type _ dummy variable - Energy & materials

GR_ICD = industry type _ dummy variable - Industrials and consumer discretionary

GR_CSH = industry type _ dummy variable - Consumer staple and health carer

GR_FIT = industry type _ dummy variable -Financial, IT and telecommunications

Tot_Assets = total assets value reported in the balance sheet

Tot_Sales = total sales (revenue) value reported in the income statement

ROA = rate of return on total assets

Gearing = gearing ratio

The linear regression was used to determine the nature of any linear relationship between each independent variable to the dependent variables

(validity of each hypothesis). The regression model also was applied for each individual dependent variable to determine the associations between the level of the disclosure and the independent variables.

4.5.2 Analysing Questionnaire Survey Data

The statistical techniques used for computation and analysis of the questionnaire survey data were descriptive statistics, and non-parametric techniques. For example, descriptive statistical techniques used for computing the respondents' preference distributions, means, medians and standard deviations in respect of each CSR theme and mediums. The non-parametric techniques, e.g. Kruskal-Wallis tests conducted to discover differences or homogeneity of respondent groups about various issues in respect to CSR information through testing the devolved null-hypothesis.

4.6 Summary

This chapter describes the research methodology which is followed in this study. The content analysis survey and the questionnaire survey were the two main techniques used to collect data.

A sample of annual reports of companies listed on the TSE was obtained for the study. Content analysis was used to collect data from the annual reports. Word was used as a measure of the extent of the CSR disclosure in annual reports. The data was also examined for reliability using stability and reproducibility tests. Descriptive statistics and multiple regression techniques were used to analyse the CSR disclosures and their relationships with corporate characteristics.

A draft questionnaire to be distributed among the Iranian corporate stakeholders was also discussed. The purpose of this questionnaire was to acquire an understanding on the stakeholders' CSR needs and perceptions. A pilot survey was conducted to identify any possible deficiencies in distributions and responding process by the respondents. The pilot survey resulted in a few minor issues in the questionnaire. The questionnaire was distributed among 846 targeted people from six major corporate stakeholder groups in Iran. The total responses received amounted to 333 that resulted to 39.36 per cent rate of response. Descriptive statistics and non-parametric techniques were used to analyse the data.

Having described the methodologies employed, the next chapter analyse and discuss the data collected by content analysis. The findings will be used to determine the extent of CSR disclosures as well as the relationships between the level of disclosures and the nominated corporate characteristics in this study.

Chapter Five

An Analysis of CSR Contents in Annual Reports

5.1 Introduction

This chapter presents a content analysis survey of the corporate social reporting in annual reports of the listed companies on the Tehran Stock Exchange (TSE) in Iran. This study is based on the assumption that the annual report is the most commonly used medium for CSR and the main mechanism through which companies disseminate CSR to different user groups (Tilt, 2001, p.193).

The aim of this chapter is to analyse the CSR information in the annual reports measured by content analysis. Descriptive analysis and multiple linear regression techniques are used to test hypotheses regarding the relationships between the variables concerned in this study. The rest of this chapter is organised as follows: the next section, 5-2, provides information about the sample companies on which the study is based; section 5-3 continues with data

reliability analysis; sections 5-4 and 5-5 cover aggregated and disaggregated descriptive analysis of the CSR information in the annual reports. Section 5-6 covers multiple regression analyses. Section 5-7 ends the chapter with a summary.

5.2 The Sample Companies

As has been discussed in chapter 4 (section 4.3), the basic criterion for selecting a company to be in the population sample for this study was the listing of that company on the TSE. In this regard, a total of 106 companies were selected from the TSE listed firms by using a stratified sampling technique. From the initial sample, three companies have been eliminated due to their incomplete annual reports which are available on the Research, Development and Islamic Studies organisation site (RDIS)¹.

This study selected annual reports which were issued from 21st March 2006 to 20th March 2007; that is a full Iranian calendar year. The samples were the latest common available annual reports during the collection period. The sample population has been classified into four sectors by using the sector classification model of the Global Industry Classification Standard (GICS). The four industry sectors recognised are the 'energy and materials', the 'industrials and consumer discretionary', the 'consumer staple and health care' and the 'financial, IT and telecommunications'. These four sectors are a concentrated list of 37 industry groups classified by TSE². The TSE classification has not been directly used for analysis in this study due to the fact that many of the industry groups have less

¹ See footnote '1' in chapter 4

² See TSE classification in Table 4-1

than five members therefore it would be inappropriate for statistical analysis.

Table 5-1 shows the sector-wise distribution of the companies.

Table 5-1		
Distribution of the companies (sector-wise)		
Industry type	Number of listed companies in the industry sector	Number of samples from the industry sector
Energy and Materials (EMA)	159	40
Industrials & Consumer Discretionary (ICD)	146	34
Consumer Staple & Health Care (CSH)	84	18
Financials, IT & Telecommunications (FIT)	41	11
Total	430	103

5.3 Results of Data Reliability Analysis

This study followed two steps to increase reliability of the data collected by using a content analysis survey. Firstly, the disclosure themes were determined based on well-known relevant literature and well-established decision rules. Secondly, this study has conducted stability and reproducibility tests in the manner that is explained under section 4.3.1/5.

The stability test was conducted by the researcher through two rounds of coding of the CSR information of the sample companies' annual reports. Due to

adoption of the ‘word’ as the unit of measurement³, it was no surprise that there were some minor and two instances of significant discrepancies. However, as a result of being more experienced in the second round of coding, the results of this round are recorded as the final results for the minor discrepancy cases. For the two significant discrepancies, the cases were investigated and found that both cases were caused by missing the disclosure items in the first round of coding. Therefore for these cases the second round counts are also considered as final counts.

After completion of the second round, the independent reviewer conducted the coding of a sample of 22 annual reports out of 103 total sample companies using the stratified sampling technique to conduct the reproducibility test⁴. The Krippendorff’s alpha was used. In regard to the standards for data reliability, Krippendorff (1980, p.147) believes:

Where possible, standards for data reliability should not be adopted ad hoc. They must be related to the validity requirements imposed upon research results, specifically to the costs of drawing wrong conclusions. If it were a matter of life and death, even a content analyst should not accept a standard for data reliability that would lead to an error in the result with a probability of, say, less than that of being killed in a car accident. If it is an exploratory study without serious consequences, that level may be relaxed considerably, but it should not be so low that the findings can no longer be taken seriously.

However, an acceptable level for the tests is considered above 0.8 (Krippendorff, 1980, p.147). The test results in Table 5-2 indicate that the alpha

³ See the discussion under section 4.3.1/3

⁴ Due to the time constraints of the independent coder, she was only asked to complete content analysis of a sub-sample of annual reports using the stratified sampling technique.

rate between the two final counts⁵ of CSR information is 0.9848 which is well over the 0.80 acceptable level of consistency (Tilt, 2001, p.197). Therefore, it is concluded that the coding of the disclosure by the researcher is statistically reliable.

Table 5-2				
Krippendorff's alpha reliability estimate				
	Alpha	Units	Observers	Pairs
Interval	.9848	22.0000	2.0000	22.000

5.4 Aggregated Descriptive Analyses of CSR Information

A statistical descriptive survey of the content analysis is the first step towards exploring the CSR practices by Iranian listed companies in this section. The aggregated results of analyses of the CSR measures are presented in Table 5-3. This table provides various items of information i.e. the number of disclosing companies, percentage of the disclosing companies to the total sample, number of disclosed words (or equivalent) and disclosed words as a percentage of all disclosed words for each theme.

⁵ These were the second round of coding by researcher and the independent coder

Table 5-3				
Aggregated measures of CSR disclosure				
Theme	Number of companies had disclosure	Percentage of disclosing companies to the total sample	CSR disclosure measured by number of words	Percentage of disclosure theme to the total CSR disclosure
Human resources	103	100	74,592	67.2
Environmental performance and policies	27	26.2	6,446	5.8
Community activities	25	24.3	4,331	3.9
Energy consumption	13	12.6	2,312	2.1
Customer satisfaction & product quality	63	61.2	23,368	21.0
			111,049	100

The results summarised in Table 5-3 indicate that human resources information is reported by 100 per cent of the companies; that is 67.2 per cent of the total CSR disclosures in the sample annual reports. This is not surprising given that the current accounting regulations mandate disclosure of some items of human

resources⁶ issues. As a result it can be seen that the human resources theme was by far the most frequently disclosure of the CSR information. The overall significance of the share of this type of CSR information among all types of reported CSR information is consistent with the results in most of the studies in this area both in developed and developing countries, see for example, Ratanajoinkol et al. (2006, Thailand); Belal (2001, Bangladesh); Andrew et al. (1989, Malaysia and Singapore); Guthrie & Mathews (1985, Australia); Hackston & Milne (1996, New Zealand); Gray, Kouhy & Lavers (1995_b, UK); and Guthrie & Parker (1990, USA, UK and Australia).

The literature does not provide a conclusive explanation for such a common significance for disclosure of the human resources theme. However, it is suggested that the reporting corporation might consciously or unconsciously develop a series of subsystems of social disclosures to match the perceived importance of constituents and their relationships (Guthrie & Parker, 1990). The human resources theme as a subsystem of social disclosures represents the employee constituency within the corporation. Such perception of human resources disclosure can also be explained from a legitimacy theory point of view considering that human resources are perceived as the most important resources in a community. Legitimacy theory suggests that for an organisation to maintain its 'licence to operate' then it must comply with the expectations of the community in which it operates (Islam, 2009, p.106).

⁶ The minimum mandatory disclosure requirements by the Iranian Accounting Standard 1 (IrAS1) on disclosure of number of employees and method of retirement allowance calculation were the two reasons for having 100 per cent of the sample companies on the record for disclosure of human resources information. In a separate analysis of the voluntary disclosure (without the mandatory disclosure) still indicated more than 92.2 per cent (95/103) of companies have disclosed human resources information.

Customer satisfaction and product quality represents the second theme in the ranking. The theme is disclosed by 61.2 per cent of the sample companies. The amount of disclosure of the theme includes 21 per cent of the total CSR disclosure in the sample annual reports. These figures indicate a relatively high attention to this theme by the companies. Such a high rate and level of customer satisfaction and product quality disclosure was not expected compared to other themes in this study. The significance of the customer satisfaction and product quality theme in this study is consistent with the findings of Purushothaman et al. (2000, Singapore); Hackston & Milne (1996, New Zealand); and Ng (1985, New Zealand). The reactions by companies through such an amount of disclosure on this theme can be explained from a stakeholder theory point of view. Within the stakeholder theory framework, an organisation responds to the needs and expectations of their powerful stakeholders (e.g. customers). From this angle, customers and their needs have a strategic role in survival of the companies in a globalised economy⁷. However, while some other studies reported a moderate level of attention to this theme (e.g. Belal (2001, Bangladesh); Ernst & Ernst (1978, USA); and Guthrie & Parker (1990, USA)) a few studies in contrast found an insignificant amount of disclosure of this theme in the annual reports (e.g. Guthrie & Parker (1990, UK and Australia); and Gray, Kouhy & Lavers (1995_b, UK)).

Table 5-3 also shows that the environmental performance and policies, community activities and energy consumption themes are reported by 26.2,

⁷ Despite all political challenges between Iran and Western countries over nuclear and political issues and the consequences of sanction, Iran's economy still is heavily involved in trade with the rest of the world including the West. Therefore all companies, particularly manufacturing companies, are exposed to tight competition and have to try hard to secure their market share.

24.3 and 12.6 per cent respectively by the sample companies. The respective amounts of CSR information are 5.8, 3.9, and 2.1 per cent of the total disclosed CSR information. The degree of significance of descriptive figures for these themes varies in different studies. The environmental performance and policies theme disclosure is reported by 26.2 per cent of the companies. Haniffa & Cooke (2005, Malaysia); Purushothaman et al. (2000, Singapore); Hackston & Milne (1996, New Zealand); and Deegan & Gordon (1996, Australia) observed that 17 per cent; 11.7 Per cent; 23 per cent and 36 per cent of their samples respectively disclosed information dealing with this theme while Gibson & Guthrie (1995, Australia) found that 53 per cent of their sample companies reported environmental issues. Gray, Kouhy & Lavers, (1995_b, UK) also found environmental disclosure a very popular theme in their sample companies' annual reports. Deegan & Rankin (1999) believe such differences in environmental disclosure results could be related to the sample size and/or size of the firm surveyed. However, it is highly probable that this issue is also related to the country of origin of the research as well.

In regard to the energy consumption theme, consistent with this study, Hackston & Milne (1996, New Zealand); Guthrie & Parker (1990, UK and Australia); and Ng (1985, New Zealand) show the least information on this theme. In contrast, studies such as Ernst & Ernst (1978), in the USA reported the amount of information related to this theme as the highest rank of CSR disclosure. As the literature suggests, there are many factors that influence the amount of disclosure on a particular theme, the extent and style of CSR

information. The possible effects of some commonly identified factors⁸ in the literature such as type of industry, profitability, size and financial leverage of the reporting entity on CSR information are measured and discussed later in this chapter.

5.5 Disaggregated Descriptive Analyses of CSR Information

This section follows the previous section's descriptive analysis by disaggregating the content analysis data. The aim of this section is to provide more detailed descriptive information about CSR practices by each identified sector of industry in this study. Due to the nature of disaggregated descriptive information, it cannot provide any particular conclusions for a particular type of industry. However, it will assist with the interpretation of results in a later part of this chapter where other variables are considered in the statistical analyses. The statistical figures of each sector are presented separately in the four relevant tables (Tables: 5-4, 5-6, 5-8 and 5-10) in this section. Further on, each sector's results are compared with the total sample results to give an indication of the overall sector CSR performance. The results of these comparisons are presented in Tables 5-5, 5-7, 5-9 and 5-11.

5.5.1 Energy and Materials Sector Results

Tables 5-4 and 5-5 present the energy and materials (EMA) sector results. This sector represents the largest industry sector in this study. The total population in this sector was 159 companies. The eleven sub-industry groups⁹ included in this sector were; cement, lime and gypsum; coal and lignite mining; metal ore

⁸ The explanatory/independent variables

⁹ The industry groups according to TSE

mining, other non-metallic mineral products; chemical and chemical by-products; basic metals; metal products; wood and by-products; and paper and by-products.

Table 5-4 Descriptive statistics _ Energy & materials (EMA) sector							
Theme	N	Minimum	Maximum	Sum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
HR_Total	40	118	2574	31660	791.50	97.467	616.438
ENV_Total	16	9	700	4470	279.38	49.300	197.201
COM_Total	11	12	462	1131	102.82	44.162	146.470
EGY_Total	9	30	483	1533	170.33	46.040	138.119
CSP_Total	28	5	666	5714	204.07	37.829	200.174

Column 1 in the table lists the disclosure themes i.e. human resources (HR), environmental performance and policies (ENV), community activities (COM), energy consumption (EGY), and customer satisfaction and product quality (CSP). Column 2 indicates the number of sample companies with disclosures for each specific theme of CSR in this study. Columns 3-5 represent quantitative amounts of each theme disclosure based on number of words. The mean-statistics and standard error columns represent these two statistical measures for each theme and the last column represents standard deviation for each theme¹⁰.

¹⁰ The same table structure can be seen for the other sectors descriptive statistics in tables 5-6 (ICD sector), 5-8 (CSH sector), and 5-10 (FIT sector).

Table 5-5 provides a brief of the comparative CSR disclosing companies by the aggregated measures verses disaggregated EMA sector results. According to the figures in this table, the sector descriptive results report a higher percentage of disclosing companies for all CSR themes compared to the aggregated ones¹¹ with the exception of the human resources theme that is 100 per cent across all industry sectors.

The comparisons between the mean-statistical results of this sector in Table 5-4 with other sectors (Tables 5-6, 5-8, and 5-10) reveal that in this sector disclosure of human resources and environmental performance and policies have the highest mean-statistics. The mean-statistic disclosure of the human resources in this sector is about 9 per cent greater than the second highest mean-statistic disclosure of the theme reported by the ICD sector. Similarly, the environmental performance and policies mean-statistic disclosure of the EMA sector also shows a relatively significant variation with the second highest mean-statistic of this theme, again the ICD sector. The environmental performance and policies mean-statistic of the EMA sector is about 8 per cent greater than one reported for the ICD sector. The level of environmental performance and policies disclosure of the sector is consistent with the view that companies in industries where economic activities modify the environment, such as extractive industries, are more likely to disclose information about their environmental impacts than are companies in other industries (Dierkes & Patterson 1997). The community activities and energy consumption themes provide mixed results in comparison with other sectors.

¹¹ Aggregated figures are cited from Table 5-3.

The interesting descriptive results for this sector are the amount of customer satisfaction and product quality disclosure and the percentage of the companies that reported (disclosing companies) this theme. On the one hand this sector with a mean-statistic of 204.7 words, reports the least amount of this theme disclosure and on the other hand this sector has the highest percentage, 70 per cent of the companies which reported customer satisfaction and product quality compared to an overall 61.2 per cent aggregated percentage of companies reporting this theme. The notion that this sector does not include the consumer-orientated companies could be seen as a reason for a lower mean-statistic for disclosure. But on the other hand there is a lack of literature support for why the theme was reported by such a large number of companies in this sector. However, the greater amounts of disclosures on human resources and environmental performance and policies themes illustrate the relative importance placed by this sector on these themes.

Table 5-5 Aggregated measures of CSR disclosing companies vs disaggregated EMA sector results		
Theme	Percentage of disclosing companies to the total sample (All sectors)	Percentage of disclosing companies to the total sample (EMA sector)
Human resources	100	100
Environ'l performance and policies	26.2	40
Community activities	24.3	27.5
Energy consumption	12.6	22.5
Customer satisfaction and product quality	61.2	70

5.5.2 Industry and Consumer Discretionary Sector Results

Tables 5-6 and 5-7 on the following pages show the 'industry and consumer discretionary' (ICD) sector results. This sector represents the second largest industry sector in this study. The total population in this sector is 146 companies. The sector tends to be occupied by primary industries and includes fourteen TSE industry groups: such as rubber and plastic products; electric metals and apparatus; industry and project management; machinery and equipment; motor vehicles, auto parts; textiles; and transportation. Table 5-7 provides a statistical brief of the comparative CSR disclosing companies by the aggregated measures versus disaggregated ICD sector results.

Table 5-6							
Descriptive statistics _ Industry & consumer discretionary (ICD) sector							
Theme	N	Minimum	Maximum	Sum	Mean		Std. Deviat'n
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
HR_Total	34	89	3212	24696	726.35	128.990	752.133
ENV_Total	6	37	771	1549	258.17	110.556	270.807
COM_Total	6	57	347	1031	171.83	49.209	120.536
EGY_Total	3	93	444	719	239.67	105.348	182.467
CSP_Total	20	44	3074	13029	651.45	187.819	839.950

The ICD sector reported all themes by a smaller proportion (percentage) of companies compared to the relative aggregated disclosing companies of all sectors with an exception for the human resources theme. In regard to the environmental performance and policies theme disclosures, the sector has performed weaker than EMA and CSH sectors but better than the FIT sector. In the area of the community activities disclosure, the sector reported the lowest percentage of the disclosing companies (17.6%, see Table 5-7) among all four sectors. The energy consumption is reported by only 8.8 per cent of the sector members but due to the weak overall results for this theme, this can still be seen as the second highest disclosure of this theme by all sectors. Within the sector, the customer satisfaction and product quality is the second highest disclosed theme compared to other themes. The sector has reported less than the EMA and CSH sectors on this theme. The data also indicates that the sector

reported the highest mean-statistic by 651.45 words for the customer satisfaction and product quality disclosure among all sectors in this study.

Table 5-7 Aggregated measures of CSR disclosing companies vs disaggregated ICD sector results		
Theme	Percentage of disclosing companies to the total sample (All sectors)	Percentage of disclosing companies to the total sample (ICD sector)
Human resources	100	100
Environ'l performance and policies	26.2	17.6
Community activities	24.3	17.6
Energy consumptions	12.6	8.8
Customer satisfaction and product quality	61.2	58.8

5.5.3 Consumer Staple and Health Care Sector Results

Tables 5-8 and 5-9 present the 'consumer staple and health care' (CSH) sector results. This sector with 18 samples represents 84 listed companies on the TSE. The sector includes five industry groups according to TSE's classifications: agriculture; food (non-sugar) products; pharmaceutical; sugar and by-products; and medical, precision and optical instruments. The CSH sector mainly represents the consumer-oriented companies. Table 5-9 provides a brief overview of the comparative CSR disclosing companies by the aggregated measures versus disaggregated CSH sector results.

Table 5-8							
Descriptive statistics _ Consumer staple & health care (CSH) sector							
Theme	N	Minimum	Maximum	Sum	Mean		Std. Deviat'n
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
HR_Total	18	160	2109	13051	725.06	148.422	629.700
ENV_Total	5	46	144	427	85.40	20.390	45.594
COM_Total	4	22	337	690	172.50	68.431	136.861
EGY_Total	1	60	60	60	60.00	.	.
CSP_Total	11	0	500	2578	234.36	49.249	163.340

As a common disclosure performance across all sectors, the human resources theme is reported by all companies with a mean-statistic of 725.06 words which gives the sector the third position among the four sectors after EMA and ICD sectors in regard to the amount of disclosure. The sector has performed well in regard to the percentage of disclosing environmental performance and policies information that is 27.8 per cent (See Table 5-9) of the companies, which put this sector in second position after the EMA sector. However, the environmental performance and policies theme from the mean-statistic point of view was disclosed very poorly compared to EMA and ICD sectors but performed better than the FIT sector which had a zero amount of disclosure. The CSH sector with a modest percentage of disclosing community activities finds itself behind the EMA and FIT sectors. In regard to the mean-statistic, the sector just pushes behind the EMA and ICD sectors with a narrow margin compared to the latter. In this sector just 5.5 per cent of companies (1 company) disclosed energy consumption with 60 word disclosures which put this sector just above the FIT

sector again with a zero disclosure on this theme. In regard to the percentage of the disclosing companies in this sector, the strongest performance theme after human resources belongs to the customer satisfaction and product quality with a rate of 61.1%. The relatively strong customer satisfaction and product quality can be perceived as a greater concern in demonstrating the companies' social responsibility in regard to their products and customers. In return this might enhance corporate image and corporate earnings (Cowen, Ferreri, & Parker, 1987).

Theme	Percentage of disclosing companies to the total sample (All sectors)	Percentage of disclosing companies to the total sample (CSH sector)
Human resources	100	100
Environ'l performance and policies	26.2	27.8
Community activities	24.3	22.2
Energy consumption	12.6	5.5
Customer satisfaction and product quality	61.2	61.1

5.5.4 Financial, IT and Telecommunication Sector Results

The descriptive data of the smallest sector, 'Financial, IT and Telecommunications' (FIT) is the last to be analysed. Tables 5-10 and 5-11 report the sector results. This sector presents 41 companies listed on TSE with 11 samples in this study. The TSE's industry groups categorised under this sector are: real estate and construction; banks, credit and other financial institutions; investment companies; other financial intermediaries (leasing); diversified industries (conglomerates); computer and related activities; and telecommunications. Table 5-11 provides a statistical brief of the comparative CSR disclosing companies by the aggregated measures versus disaggregated CSH sector results.

Table 5-10 Descriptive statistics _ Financials, IT & telecommunications (FIT) sector							
Theme	N	Minimum	Maximum	Sum	Mean		Std. Deviat'n
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
HR_Total	11	75	1883	5185	471.36	179.163	594.215
ENV_Total	0						
COM_Total	4	92	796	1479	369.75	150.218	300.436
EGY_Total	0						
CSP_Total	4	96	1206	2047	511.75	258.477	516.954

All of the FIT sector members as with the other sectors provided information on human resources, with a minimum of 75 up to a maximum of 1883 words. However, on a mean-statistic scale with 471.36 words, FIT sector performed the

lowest disclosure of this theme across all four sectors. The other major weak performance areas for this sector are the environmental performance and policies and energy consumption with zero number of words on disclosures of these two themes. Beside these poor performances, the sector has the best performance in terms of community activities disclosure with 36.4 per cent disclosing companies. The relatively good performance in terms of community activities disclosure is not only the percentage of disclosing companies but also the mean-statistic of number of words disclosed on this theme. The sector's results indicate a moderate approach for disclosing customer satisfaction and product quality regarding both the percentage of disclosing companies, 36.4 per cent and the mean-statistic of disclosure, 511.75 words.

Table 5-11		
Aggregated measures of CSR disclosing companies vs disaggregated FIT sector results		
Theme	Percentage of disclosing companies to the total sample (All sectors)	Percentage of disclosing companies to the total sample (FIT sector)
Human resources	100	100
Environ'l performance and policies	26.2	0
Community activities	24.3	36.4
Energy consumption	12.6	0
Customer satisfaction and product quality	61.2	36.4

5.6 Multiple Regression Analyses

The descriptive analyses in previous sections indicated a number of variations in CSR disclosures across different industry types. This section expands the earlier analysis using multiple linear regression technique. This technique is applied when the variation of the dependent variable is thought to be predicted by the presence of more than one independent variable. The result is an equation that represents the best prediction of a dependent variable from several independent variables (Coakes, Steed & Ong, 2010). The initial regression equation model assumed in this study is the one that has been discussed under section 4.5.1 as follows:

Equation 5-1:

$$CSR = a + b_1GR_EMA + b_2GR_ICD + b_3_CSH + b_4GR_FIT + b_5Tot_Assets + b_6Tot_Assets + b_7ROA + b_8Gearing$$

Where:

CSR = dependent variable measured by number of CSR disclosures in words

a = the constant measure

b = the estimated coefficient

GR_EMA = industry type _ dummy variable - Energy & materials

GR_ICD = industry type _ dummy variable - Industrials and consumer discretionary

GR_CSH = industry type _ dummy variable - Consumer staple and health carer

GR_FIT = industry type _ dummy variable -Financial, IT and telecommunications

Tot _Assets = total assets value reported in the balance sheet

Tot _Sales = total sales (revenue) value reported in the income statement

ROA = rate of return on total assets

Gearing = gearing ratio

5.6.1 Multicollinearity Test

Before continuing on to any further multiple regression analysis in this section, it is necessary to check the independent variables for multicollinearity cases. Multicollinearity refers to the statistical situation where two or more independent variables are highly correlated. In such a situation the coefficient may result in a partial regression coefficient or incorrect assessment of the relative importance of the independent variables in explaining the variation caused by the dependent variable (Moore et al., 2003, p.673). Williams (1998) and Walden (1993) conclude that the harmful levels of multicollinearity were not present until bivariate correlations reached 0.8 or above. Table 5-12 shows only a high correlation ratio¹² between the 'total assets' and 'total sales' which is above the suggested limit. Both these independent variables were considered as the measures of company size. As a result, based on the above suggestion, only the 'total assets' were retained as the independent variable for this test. The initial analyses indicated that there are no significant variations in the results if the 'total sales' variable had been used instead of the 'total assets' in the tests.

¹² Descriptive statistics of test data has been provided in the appendix 'C'

Table 5-12									
Correlations between independent variables									
		GR_EMA	GR_ICD	GR_CSH	GR_FIT	Tot_Assets	Tot_Sales	ROA	Gearing
Pearson Correlation	GR_EMA	1.000	-.559	-.367	-.276	-.116	-.072	.286	-.014
	GR_ICD	-.559	1.000	-.323	-.243	.084	.132	-.402	-.142
	GR_CSH	-.367	-.323	1.000	-.159	-.082	-.061	.109	-.091
	GR_FIT	-.276	-.243	-.159	1.000	.155	-.012	.027	.351
	Tot_Assets	-.116	.084	-.082	.155	1.000	*.940	.007	-.036
	Tot_Sales	-.072	.132	-.061	-.012	*.940	1.000	.015	-.038
	ROA	.286	-.402	.109	.027	.007	.015	1.000	.148
	Gearing	-.014	-.142	-.091	.351	-.036	-.038	.148	1.000

*Variables with over 0.8 ratio of collinearity

As a result of the identified multicollinearity issues and removing the ‘total sales’ from the independent variable list, the multiple regressions would change to its new version as follows:

Equation 5-2:

$$CSR = a + b1GR_EMA + b2GR_ICD + b3_CSH + b4GR_FIT + b5Tot_Assets + b6ROA + b7Gearing$$

Where:

CSR = dependent variable measured by number of CSR disclosures in words

a = the constant measure

b = the estimated coefficient

GR_EMA = industry type _ dummy variable - Energy & materials

GR_ICD = industry type _ dummy variable - Industrials and consumer discretionary

GR_CSH = industry type _ dummy variable - Consumer staple and health carer

GR_FIT = industry type _ dummy variable -Financial, IT and telecommunications

Tot _Assets= total assets value reported in the balance sheet

ROA = rate of return on total assets

Gearing = gearing ratio

Based on the new version of the equation (Equation 5-2), the multiple regression analysis was conducted on the data set. But before finalising the model for the test, one more issue was found and that was the existent of a dummy variable in the model. To avoid the dummy variable trap, one of the dummy variables representing industry type must be excluded from the model. To achieve the strongest test of industry type, an industry type at one extreme of the effects was excluded (Williams, 1998, p. 179). As a result of the above adjustment, the following equation was drawn:

Equation 5-3

$$CSR = a + b1GR_EMA + b2GR_CSH + b3GR_FIT + b4Tot_Assets + b5ROA + b6Gearing$$

Where:

CSR = dependent variable measured by number of CSR disclosures in words

a = the constant measure

b = the estimated coefficient

GR_EMA = industry type _ dummy variable - Energy & materials

GR_CSH = industry type _ dummy variable - Consumer staple and health carer

GR_FIT = industry type _ dummy variable -Financial, IT and telecommunications

Tot _Assets= total assets value reported in the balance sheet

ROA = rate of return on total assets

Gearing = gearing ratio

Using the enter method, a significant model emerged ($F_{6,96} = 2.094$, $P < 0.061$, Adjusted $R^2 = .060$).

5.6.2 Regression Estimates – Determinants of CSR Disclosures (all themes)

Reported distribution of CSR disclosures in Table 5-13 reveals the existence of differences in the extent and type of disclosures in the sample. This study used four hypotheses namely H_1 Size, H_2 Profitability, H_3 Financial Leverage and, H_4 Industry type to test the factors affecting those differences in disclosure of CSR information. Those hypotheses are clearly explained in Chapter 4. Table 5-13 provides the regression results based on Equation 5-3 which examined the determinants of CSR disclosures (all themes). According to the recorded R^2 value, the model is able to explain the dependent variable up to the 11.6% level of the overall CSR disclosure. It indicates there may be some other factors which can affect the overall level of CSR disclosures (all themes). Among the independent variables used in this model, the only variable which represented a statistically significant relationship was company size. This relationship is consistent with the legitimacy theory concept. As within the legitimacy theory framework, the size of a company is a proxy for public visibility¹³. Therefore, the larger the company the more scrutiny by the public, as a result more CSR information would be disclosed in order to legitimise or maintain legitimacy of its operations.

¹³ Patten (1991, p.305) refers to company size and industry type characteristics as two *public pressure* proxies.

All other recorded coefficient values are statistically insignificant. Confirming the predicted relationship in the H_1 , the size shows a statistically significant positive relationship with the dependent variable. The result is consistent with results found in many other studies for example Trotman & Bradley (1981), Patten (1991), Belkaoui & Karpik (1989), Hackston & Milne (1996), Purushothaman et al., (2000) and Haniffa & Cooke (2005).

Explanatory Variables	Coefficients	‘T’ values
(Constant)	1215.216***	6.609
GR_EMA	-156.520	-.610
GR_CSH	-328.812	-1.070
GR_FIT	-458.471	-1.216
Tot_Assets	2.250E-5**	2.535
ROA	544.281	1.504
Gearing	-49.916	-1.131
R²	0.116	
Adjusted R²	0.060	
‘F’ Statistics	2.094	

[‘***’ indicates significant coefficients’ under 1% confidence level, ‘**’ indicates significant coefficients’ under 5% confidence level, ‘*’ indicates significant coefficients’ under 10% confidence level]

5.6.3 Multiple Regressions by Theme

Table 5-14 to Table 5-18 present the regression results on the specific themes of CSR. This analysis helps to identify explanatory variables for each individual CSR theme disclosure. The five themes considered in this study were human resources, environmental performance and policies, community activities, energy consumption, and customer satisfaction and product quality information.

Results recorded in the previous table and the other tables in the following sections in this chapter¹⁴ indicate that the explanatory power of the model used in this study is substantially different where applied to different disclosure themes. Further, the results also indicate that the identified relationships of independent variables with disclosure themes are substantially different. These results demonstrate that the differences in types of CSR information impacts on the explanatory power of the independent variables.

5.6.3/1 Multiple Regression _ Human Resources

Equation 5-3 was used to analyse the significance of explanatory variables on the level of human resources disclosures. The estimated coefficients for the equation are presented in Table 5-14. The recorded R^2 for the regression shows that the model is not able to satisfactorily explain the dependent variable. That indicates there may be other factors that contribute to the level of human resource disclosures. Further to that, none of the independent variables used in this model were able to show a significant relationship. Therefore, this study does not provide any evidence to either accept or reject the predicted relationships.

¹⁴ Tables 5-14, 15, 16, 17 & 18

Explanatory Variables	Coefficients	‘T’ values
(Constant)	**531.258	2.309
GR_EMA	253.814	1.035
GR_ICD	219.066	0.874
GR_CSH	182.918	0.665
Tot_Assets	4.321E-6	0.732
ROA	204.145	0.848
Gearing	-31.175	-1.062
R ²	0.044	
Adjusted R ²	-0.016	
‘F’ Statistics	0.734	

[‘****’ indicates significant coefficients’ under 1% confidence level, ‘***’ indicates significant coefficients’ under 5% confidence level, ‘**’ indicates significant coefficients’ under 10% confidence level]

5.6.3/2 Multiple Regression _ Environmental performance and policies

Table 5-15 presents the estimated coefficient for the equation 5-3 which explains the factors affecting environmental performance and policies disclosures. The recorded high R² value (0.31) indicates that the variables used in the model were able to satisfactorily explain the dependent variable. The industry type (GR_ EMA sector) and size have shown statistically significant relationships with the level of environmental disclosures. Among other industry sectors, GR_ EMA has shown a higher level of disclosure in this theme. This is consistent with the descriptive analysis results presented in section 5.5.1.

Further to that, GR_EMA represent an industry sector which is mainly concentrated in resource and chemical companies. Thus, the result indicates companies in this industry sector tend to disclose more environmental performance and policies information since most of their operations directly related to the natural environment or chemically sensitive activities. Corporate size and industry type appear to have influenced environmental performance and policies disclosure.

Table 5-15 Multiple regression results - Environmental performance and policies		
Explanatory Variables	Coefficients	'T' values
(Constant)	-55.082	-1.262
GR_EMA	159.102***	3.420
GR_ICD	77.468	1.629
GR_CSH	74.696	1.432
Tot_Assets	6.385E-6***	5.700
ROA	10.913	0.239
Gearing	1.940	0.348
R²	0.314	
Adjusted R²	-0.271	
'F' Statistics	7.33	

[**** indicates significant coefficients' under 1% confidence level, *** indicates significant coefficients' under 5% confidence level, ** indicates significant coefficients' under 10% confidence level]

5.6.3/3 Multiple Regression _ Community Activities

Table 15-16 presents the regression results relative to the community activities theme disclosures. Estimated coefficients for equation 5-3 indicate that there are significant industry differences in the level of this theme disclosure. The estimated negative significant coefficients for the industry sector dummies suggest that relative to the GR_FIT, the other industry sectors have maintained a lower level of disclosure on the theme. It is an interesting result. This is consistent with findings of descriptive analysis presented in section 5.5.4.

Table 5-16		
Multiple regression results - Community activities		
Explanatory Variables	Coefficients	'T' values
(Constant)	147.697***	3.790
GR_EMA	-123.977***	-2.984
GR_ICD	-108.445**	-2.553
GR_CSH	-114.144**	-2.450
Tot_Assets	6.694E-7	0.669
ROA	65.691	1.610
Gearing	-6.667	-1.340
R²	0.119	
Adjusted R²	0.064	
'F' Statistics	2.168	

[**** indicates significant coefficients' under 1% confidence level, *** indicates significant coefficients' under 5% confidence level, ** indicates significant coefficients' under 10% confidence level]

5.6.3/4 Multiple Regression _ Energy Consumption

Table 15-17 presents the multiple regression results for the energy consumption theme. The results show that the size of firms has a significant relationship with the level of disclosures of energy consumption related information disclosure. It suggests that large firms tend to disclose more information on this theme. Further to that significant positive coefficients recorded on the GR_EMA and GR_ICD indicate that firms in these two industries tend to disclose more information on this theme than the other two industry sectors (GR_FIT and GR_CSH).

Table 5-17 Multiple regression results – Energy consumption		
Explanatory Variables	Coefficients	'T' values
(Constant)	-36.939	-1.644
GR_EMA	65.944***	2.752
GR_ICD	47.858*	1.954
GR_CSH	34.499	1.284
Tot_Assets	3.546E-6***	6.147
ROA	31.073	1.321
Gearing	2.455	0.856
R²	0.326	
Adjusted R²	0.248	
'F' Statistics	7.735	

[**** indicates significant coefficients' under 1% confidence level, *** indicates significant coefficients' under 5% confidence level, ** indicates significant coefficients' under 10% confidence level]

5.6.3/5 Multiple Regression _ Customer satisfaction and product quality

The last theme of the CSR was the customer satisfaction and product quality theme disclosures. Similar to the community activities theme results, the estimated negative significant coefficients for the industry sector dummies suggest that relative to the GR_ICD, the other industry sectors have reported a lower level of disclosures on this theme (see Table 5-18). This is consistent with the finding of the descriptive analysis presented in section 5.5.2. The results also show that the size of the firms has a significant positive relationship with the level of customer satisfaction and product quality related information. Therefore, it suggests that the larger firms tend to disclose more information on this theme.

Table 5-18		
Multiple regression results - Customer satisfaction & product quality		
Explanatory Variables	Coefficients	'T' values
(Constant)	392.335***	4.816
GR_EMA	-275.457**	-2.422
GR_CSH	-270.834**	-1.989
GR_FIT	-222.524	-1.333
Tot_Assets	7.576E-6*	1.927
ROA	232.459	1.450
Gearing	-16.469	-0.842
R²	0.122	
Adjusted R²	0.067	
'F' Statistics	2.223	

[**** indicates significant coefficients' under 1% confidence level, *** indicates significant coefficients' under 5% confidence level, ** indicates significant coefficients' under 10% confidence level]

5.7 Summary

One general purpose of this study was to extend the overall knowledge of CSR practices in Iran. This has included an investigation of possible relationships between some companies' characteristics as independent variables and the level of CSR disclosure in the annual reports of the Iranian listed companies. Descriptive and multiple regression statistic analyses were used to provide a quantitative dissection of the current CSR practices and to test the hypotheses.

Statistical analyses started with Krippendorff's alpha test. This test was conducted to assess the reliability of content analysis data collected. The test has confirmed the reliability of data well over the acceptable level. The statistical analyses have been followed by the aggregated and disaggregated descriptive analyses to explore quantitative measures of CSR disclosures. While it was evident that all types of CSR information were reported by the companies, it was also found that the human resources theme information was the most common type and amount of CSR information in the annual reports.

Furthermore, the statistical analyses continued with multiple regression analyses. These analyses were conducted to determine the type of relationships that exist between the level of CSR disclosure and four company characteristics. Company size was found to be the only variable that had a statistically significant relationship with the overall level of CSR disclosures. This finding can be also be supported by Adam's (2002, p.225) view that there are various ethical and environmental factors (for example political, cultural or social factors) other than company characteristics which can impact on corporate reporting behaviour.

In further analyses by conducting multiple regressions for each theme individually, mixed results were found. In regard to human resources disclosures, the results indicated that the model was unable to explain the level of disclosure. Therefore, some other factors might contribute to the level of disclosure for this theme. The level of environmental performance and policies disclosures was found to have statistically significant relationships with company size and industry type variables.

In regard to the community activities theme, the results indicated that there were significant industry differences in the level of this theme disclosure. The GR_FIT was found to have a relatively higher level of disclosure for this theme compared to other industry sectors. The multiple regression results for the energy consumption theme showed that the size and industry type of the firms have significant positive relationships with the level of information disclosures.

The customer satisfaction and product quality theme regression results were similar to the energy consumption theme and showed statistically significant relationships with the size and industry type characteristics of the firms. Finally, none of the conducted regressions supported any statistically significant relationships between the profitability and financial leverage characteristics and the overall level or individual themes disclosure.

While this chapter has focused on the analyses of CSR practices in Iran, understanding of the Iranian users' CSR needs and perceptions are integral to this research investigation. The results from the questionnaire survey allow for

extrapolation in relation to some of the research questions. The questionnaire survey results are presented and discussed in the following chapter.

Chapter Six

Users' Needs, Perceptions and Preferences

6.1 Introduction

The results of CSR practices by Iranian listed companies are presented and discussed in the previous chapter. The purpose of this chapter is to explore the CSR information needs and views of both economically powerful and less economically powerful stakeholders in Iran. A questionnaire survey of the stakeholder population was the first step in gathering information on the needs and views of these groups. As noted earlier in chapter three, generally speaking, there is a lack of prior research into users' perspectives on CSR and in particular user groups in Iran. The exploratory nature of the research tends to focus on the CSR information needs and perceptions of the above mentioned stakeholders. The results will be compared with actual CSR disclosure results in chapter five where it is appropriate.

The questionnaire¹ was divided into two parts. Part one requested data concerning demographic characteristics about occupation, age, work experience, level of education and professional membership of the respondents. In part two of the questionnaire subjects were then asked questions relating to CSR information received/sought, read/seen and asked/expected. The questionnaire also included questions about whether the amounts and types of information were sufficient, easy to understand and credible or vice versa; whether in the users’ opinion the additional CSR information is needed and if so how this information should be disclosed. Which medium is preferred to be used for CSR information, was another question to respondents. Finally, the respondents were asked whether there is any need for guidelines and regulations. A positive response to this question would need to be followed by the next question as to who should produce such materials, government or professional bodies.

The remainder of this chapter is divided into ten sections. Section 6.2 covers results of respondents’ academic qualifications, and the length of their professional experience. Section 6.3 discusses the respondents’ views about the sources of received/sought CSR information. Section 6.4 analyses the respondents’ sources of read/seen CSR information. Section 6.5 deals with the degree of importance which users attach to various CSR themes and asked/expected information. Understanding, credibility and sufficiency of CSR

¹ Review the questionnaire design and sampling details in chapter 4.

are discussed in section 6.6. In section 6.7 respondents’ perceptions about the additional type/s of CSR theme are discussed. In section 6.8 respondents’ preferred format/s of the CSR disclosure are analysed. Section 6.9 analyses the data on the preferred venue/s of CSR disclosure. Section 6.10 discusses the mandatory status of CSR and analyses the importance of regulatory providers in Iran. Finally, section 6.11 summarises and concludes the analysis of the questionnaire survey.

6.2 Users’ Academic Qualifications and Experiences

Table 6-1 presents academic qualifications among different user groups. The questionnaire suggested four possible categories of academic qualification for user groups.

User-groups are: auditors (Aud.), academics (Aca.), stockbrokers (S.B.), bank loan officers (B.L.O.), institutional investors (Ins.Inv.), and business managers (Bus.Man.). As Table 6-1 shows that 99.0 per cent of respondents have obtained an academic degree from universities. Only 3 respondents (all from the bank loan officers group) had diplomas or lower academic qualifications. These numbers are too small for it to be possible to do any statistical testing.

Table 6-1							
Academic training and qualifications (%)							
Qualification	Aud.	Aca.	S.B.	B.L.O	Ins. Inv.	Bus. Man.	Total
Diploma or lower	0 (0)	0 (0)	0 (0)	3 (5.4)	0 (0)	0 (0)	3 (1.0)
Bachelor or equivalent	62 (65.3)	0 (0)	43 (63.2)	38 (67.8)	15 (51.7)	18 (52.9)	176 (52.8)
Master or equivalent	31 (32.6)	20 (39.2)	25 (36.8)	15 (26.8)	14 (48.3)	15 (44.2)	120 (36.0)
Ph.D. or equivalent	2 (2.1)	31 (60.8)	0 (0)	0 (0)	0 (0)	1 (2.9)	34 (10.2)
Total	95 (100)	51 (100)	68 (100)	56 (100)	29 (100)	34 (100)	333 (100)

A great majority of the respondents 287/333 (86.2%)² had an academic degree in commerce or a related field. The results also indicate that 143/333 (42.9%) had a membership with one of the Iranian professional accounting bodies. The results also indicate that 252 and 81 of respondents were male and female (75.7% and 24.3%) respectively across all respondent groups.

In regard to academic qualifications, the significance of differences was tested by undertaking a Pearson Chi-Square test (χ^2) to find any relationship between user groups and academic qualifications. The following hypothesis was tested to ascertain whether there is a difference among user groups in this regard.

² Almost 100% of respondents were expected to have degrees given their positions.

There is no difference among respondent groups regarding their academic qualifications.

The results of the Pearson χ^2 test show that the academic qualifications are statistically different between respondent groups at 1% level (Chi-Square = 203.204, D.F. = 15, P = 0.0000). This indicates that there is not any homogeneity in the academic qualifications between the respondent groups.

The length of respondents' work experience is shown in Table 6-2. It varies and spreads from less than two years to more than 10 years. The highest rate (45.0%) is for the category of more than 10 years work experience and the lowest rate (11.4%) is for the level of less than 2 years experience. Within the business manager group, 85.3 per cent of respondents have more than 5 years work experience. More than half of this group's respondents (55.9%) had more than 10 years work experience.

	Aud.	Aca.	S.B.	B.L.O.	Inst. Inv.	Bus. Man.	Total
Less than 2 years	3 (3.2)	11 (21.6)	8 (11.8)	14 (25.0)	0 (0)	2 (5.9)	38 (11.4)
Two years to 5 years	16 (16.8)	0 (0)	17 (25.0)	17 (30.4)	14 (48.3)	3 (8.8)	67 (20.1)
Five years to 10 years	27 (28.4)	19 (37.3)	9 (13.2)	5 (8.9)	8 (27.6)	10 (29.4)	78 (23.4)
Over 10 years	49 (51.6)	21 (41.2)	34 (50.0)	20 (35.7)	7 (24.1)	19 (55.9)	150 (45.0)
Total	95 (100.0)	51 (100.0)	68 (100.0)	56 (100.0)	29 (100.0)	34 (100.0)	333 (100.0)

Interestingly, the results show relatively well experienced user groups³ in this survey. The rank of work experience among respondent groups for more than five years was as follows: business managers group (85.3%) is ranked first; auditors (80.0%) second; academic group (78.5%) third; stock brokers (63.2%) fourth; institutional investors (51.7%) fifth; and bank loan officers (44.6%) are the last ranked group.

The significance of the differences was tested by undertaking a Pearson Chi-Square test (χ^2) to find any relationship between respondents’ occupation and the length of work experience. The following null-hypothesis was tested to ascertain whether there is a difference among user groups in this regard.

³ As far as the length of years of occupation is concerned

There is no difference among user groups of CSR regarding the length of work experience.

The results of the Pearson χ^2 test showed that the length of work experience is statistically different between respondent groups at the 1% level (Chi-Square = 71.817, D.F. = 15, P = 0.0000). This indicates that there is no homogeneity in the length of work experience between user groups.

6.3 Users' Sources of CSR Information Received/Sought

Two issues addressed by this survey were to determine who the main user groups of CSR are and also to find their sources of these types of information. The earlier questions in part two of the questionnaire were designed to ask respondents whether they receive/seek CSR information and if so, through what type of medium/media and to rank these in their preferred order (1-5)⁴. The results are summarised in Table 6-3.

The question of whether the respondents receive/seek any CSR information was given a 'yes' answer by 322 out of 333, that is, 96.7 per cent of the total sample population. From this it can be also interpreted that a great majority of the concerned stakeholders obtained CSR information in at least one form. When further analysis was performed to determine if the respondents receive/seek CSR information was independent of their category, dependence

⁴ For statistical analysis purpose in SPSS, the highest rank has converted to 5 and the lowest 1.

was observed at 10% significant level (Chi-Square 10.357, DF 5, and P = 0.066).

Table 6-3 Frequency of user groups receive/seek CSR Information		
User groups	Number of responses to the question	Number of “yes” responses, if they receive/seek CSR information
Auditors	95	92
Academics	51	47
Stockbrokers	68	68
Bank Loan Officers	52	52
Inst. Investors	29	29
Bus. Managers	34	34
Total respondents	333	322/333 (96.7%)

In response to the question of resource or resources used to receive/seek CSR information, users nominated one or more media used to receive/seek this type of information. The statistics results are reported in Table 6-4. The annual reports medium was nominated by 288/322 (89.4%) of respondents with a mean of 4.73/5 which is the highest mean ranking for all five media. The advertisements or media releases medium was nominated by 244/322 (75.8%) of respondents giving a mean of 3.67/5 making it the second highest ranked source of CSR information. The company web-site was ranked as the third

highest ranked medium with a mean of 3.49/5, nominated by 237/322 (73.6%) of the respondents⁵.

In addition to the four specified named sources (the fourth item will be discussed later), there was an opportunity for respondents to select and rank other sources which were not listed in the questionnaire. The unspecified option of the ‘other’, was nominated by 109/322 (33.9%) of respondents with a mean of 2.71/5. This option was specified in various items by respondents such as product labels and packaging, exhibitions, public announcements, brochures and word of mouth. In regard to this option, not all respondents of this option specified their ‘other’ choice. However, regardless of the nature of the specified item, for ranking purposes the ‘other’ was counted as a separate medium. Finally, the supplements to annual reports medium was ranked as the last item in ranking by 146/322 (45.3%) of respondents with a mean of 2.67/5.

Consistent with Tilt (1994, p.60) and Deegan & Rankin (1997, p.573) findings, the overall responses reflected the importance of the annual reports as a tool for communication of corporate information including CSR information for the interested user groups and stakeholders. One suggested reason for such a result could be that contents of annual reports are relatively credible⁶ and understandable compared to other media (Tilt, 1994, p.61). However, a more interesting finding could be the consistency of the views of Iranian users

⁵ See relevant discussion on the growth of internet usage in Iran under section 6-4, pp.183-184.

⁶ This is so, because annual reports are subject to audit review.

(representing users from a developing country) with the Australian counterparts (representing users from a developed country) on the importance of the annual reports as a corporate communication tool⁷.

Separate Kruskal-Wallis tests were carried out for each of the media of CSR information to discover differences or homogeneity of user groups about the sources of information received/sought through testing the following null-hypothesis:

There is no difference in ranking of the CSR information received/sought among respondent groups.

The Kruskal-Wallis test results showed statistically significant differences at 1% level for the annual reports, advertisements or media releases and company web-site media and at 5% level for the 'other' medium. However, the supplement to annual reports medium results showed statistical insignificant difference in ranking of this medium.

⁷ As discussed in chapter 1, there is a lack of literature dealing specifically with CSR reporting in Iran.

Table 6-4
The ranking of the sources of CSR information receive/seek by the respondents

User groups	Annual reports			Sup. to annual reports			Adv. & media releases			Company web-site			Other		
	M1	M2	STD	M1	M2	STD	M1	M2	STD	M1	M2	STD	M1	M2	STD
Auditors	4.73	5.0	0.737	2.80	3.0	1.095	3.93	4.0	0.710	3.77	4.0	0.756	3.09	3.5	1.231
Academics	4.88	5.0	0.391	2.50	2.0	0.938	3.55	4.0	0.739	3.12	3.0	0.889	3.06	3.0	1.436
Stockbrokers	4.83	5.0	0.456	2.54	2.0	1.362	3.28	3.0	0.666	3.25	3.0	0.992	2.23	2.0	1.189
Bank Loan Off's	4.61	5.0	0.603	2.47	2.0	1.375	3.88	4.0	0.757	3.39	3.0	1.022	3.10	2.5	1.287
Inst. Investors	4.52	5.0	0.643	3.00	4.0	1.414	3.80	4.0	0.775	4.00	4.0	0.816	2.75	2.0	1.500
Bus. Managers	4.73	5.0	0.533	3.07	3.0	1.438	3.96	4.0	0.706	3.79	4.0	0.658	3.22	3.0	1.302
Total	4.73	5.0	0.591	2.67	2.0	1.244	3.67	4.0	0.759	3.49	3.0	0.923	2.71	2.0	1.307
*N		288			146			244			237			109	

*A number of respondents did not provide information for all parts of this question, consequently total respondent numbers are different
M1 = Mean, M2 = Median, STD = Standard Deviation

6.4 Users’ Sources of CSR Information Read/Seen

The survey continued with two other questions as to whether the respondents have read/seen CSR information, and if so, what source/sources of CSR information, and to rank these in their preferred order (1-5)⁸. The overall pattern of the responses was found to be similar to the pattern of the responses to the earlier two questions which have been reported in the previous tables. The question of whether the respondents have read/seen any CSR information received a ‘yes’ response by 308 out of 331 respondents representing 93.1% of the sample population with the exception of two missing cases. The results of the first question are reported in Table 6-5. When further analysis was performed to determine if the respondents read/seen CSR information was independent of their category, dependence was observed at 1% significance level (Chi-Square 17.151, DF 5, and P = 0.004).

User groups	Number of responses to the question	Number of “yes” responses, if they read/seen CSR information
Auditors	93	87
Academics	51	46
Stockbrokers	68	67
Bank Loan Officers	56	46
Inst. Investors	29	29
Bus. Managers.	34	33
Total	331	308/331 (93.1%)

⁸ Similar to the earlier question, the highest ranked 5 and the lowest 1

The results in Table 6-6 report the respondents’ opinions to the question of where CSR information (which medium/media) was read/seen. The overall pattern of responses to this question is consistent with the previous studies’ findings in regards to identifying the annual report as the main medium used to obtain CSR information (Deegan & Rankin, 1997; Tilt, 1994)⁹. The annual reports were again ranked as the most common source of CSR information read/seen by 276/308 (89.6%) of the respondents with a mean of 4.73/5. The results in Table 6-6 also indicate the consistency of the perceived importance of the annual reports medium across all respondent groups. The advertisements or media releases medium is ranked as the second common source of CSR information read/seen with a mean of 3.66/5 by 232/308 (75.3%) of the respondents.

The company web-site with a very narrow lower margin of the mean, 3.51/5, was ranked as the third medium after the advertisements or media releases by 225/308 (73.1%) of respondents. The relatively strong position of the company web-site as an effective corporate medium among the other conventional media was an interesting finding. The use of the internet as a channel for the dissemination of corporate information is a recent and fast growing phenomenon (Fisher, Oyelere & Laswad, 2004). The users’ perceptions in this study in regard to corporate information on the internet might be an indication

⁹ See relevant discussion on p.179.

that the emergence of the internet and technology has also started to grow in developing countries¹⁰.

The supplements and the 'other' media by relatively far distance means (2.71 and 2.66/5 respectively) and also numbers of respondents (129 and 98/308, 41.9% and 31.2% respectively) were nominated as the last two ranked media for CSR information read/seen.

Separate Kruskal-Wallis tests were carried out for each of the media of CSR information to discover differences or homogeneity of respondent groups about the sources of information read/seen through testing the following null-hypothesis:

There is no difference in ranking of the CSR information read/seen among respondent groups.

The Kruskal-Wallis tests' results showed statistically significant differences at 1% level for the annual reports, advertisements or media releases and company web-site media and at 5% level for the 'other' medium. However, again the supplement to annual reports medium's results was reported with statistically insignificant difference among user groups. Therefore, the null-hypothesis that

¹⁰ Indeed there is some evidence that shows very fast growth in rate and number of internet users in Iran in the last decade. According to the Internet World Stats (IWS) (2010) Iran had the highest growing number of internet users in the Middle East region during 2000-2010. The IWS data indicates while the number of internet users in Iran was only 250,000 in 2000, in contrast this number has reached 33,200,000 users in September 2009. This growth represents 13,180 per cent growth during the above mentioned period. According to the above mentioned source, the current number of users represents more than 43 per cent of Iran's estimated population in 2010.

there is a homogeneous ranking of CSR information medium is rejected across all media except for the supplements to annual report.

Table 6-6
The ranking of the sources of CSR information read/seen by the respondent groups

User groups	Annual reports			Sup. to annual reports			Adv. & media releases			Company web-site			Other		
	M1	M2	STD	M1	M2	STD	M1	M2	STD	M1	M2	STD	M1	M2	STD
Auditors	4.71	5.0	0.754	3.04	3.0	1.060	3.96	4.0	0.740	3.76	4.0	0.830	3.24	4.0	1.221
Academics	4.88	5.0	0.391	2.80	3.0	1.031	3.49	4.0	0.756	3.05	3.0	0.947	3.00	3.0	1.414
Stockbrokers	4.83	5.0	0.456	2.48	2.0	1.349	3.28	3.0	0.670	3.40	3.0	0.931	2.21	2.0	1.036
Bank Loan Off's	4.58	5.0	0.583	2.20	2.0	1.207	3.92	4.0	0.774	3.35	3.0	0.950	3.20	2.50	1.398
Inst. Investors	4.52	5.0	0.643	2.9	2.50	1.370	3.61	3.50	0.979	3.95	4.0	0.887	2.33	2.0	1.528
Bus. Managers	4.79	5.0	0.415	32.88	3.0	1.258	4.00	4.0	0.791	3.91	4.0	0.610	2.43	2.0	1.512
Total	4.73	5.0	0.585	2.71	3.0	1.207	3.66	4.0	0.802	3.51	4.0	0.926	2.66	2.0	1.276
*N		276			129			232			225			98	

*A number of respondents did not provide information for all parts of this question, consequently total of respondent numbers is different
M1 = Mean, M2 = Median, STD = Standard Deviation

6.5 Asking/Expecting Information that Constitute CSR

The questionnaire also set some questions to ask respondents whether they asked/expected any CSR information. If so, what type of disclosure they asked/expected and to rank these in their preferred order (1-5)¹¹. The results are reported in Tables 6-7 and 6-8.

6.5.1 Frequencies of Respondent Groups Asked/Expected CSR Information

The overall proportion of respondents who asked/expected any CSR information from or about companies was 70.2 per cent (229/326). Within the group categories, the academics were the most interested group (92.2%, 47/51) who did ask/expect CSR information about or from companies among all six respondent groups. In contrast bank loan officers’ responses in this regard, indicated the lowest (37.0%, 20/54) attention to CSR information. The other respondent groups reflected a level of asked/expected CSR information somewhere between the two extremes. While such results in isolation can be seen as a relatively strong demand for CSR information, they cannot be interpreted conclusively due to lack of empirical benchmarks.

When further analysis was performed to determine if the decision to ask/expect CSR information was independent of respondent category, dependence was observed (Chi-Square 43.729, D.F. = 5, $p = 0.000$).

¹¹ Again the most asked/expected = 5 and the least = 1

User groups	Number of responses to this question	Number of responses ask/expect CSR	Percentage of the group
Auditors	93	70	75.3
Academics	51	47	92.2
Stockbrokers	68	46	67.6
Bank Loan Off's	54	20	37.0
Inst. Investors	29	24	82.8
Bus. Managers	31	22	71.0
Total	326/333	229/326	70.2

6.5.2 Importance of Various Activities and Information that Constitute CSR

Table 6-8 reports the statistical analysis results of ranking various asked/expected information themes which constitute CSR by respondent groups. The identified themes were listed as human resources, environmental performance and policies, community activities, energy consumption, and customer satisfaction and product quality. The environmental performance and policies theme was ranked one by 201/229 (87.8%) with a mean of 4.12/5. As discussed in more detail in the chapter conclusion, these findings indicate there is an overall strong demand for such a theme by the common stakeholders in Iran. However, the comparison of these results with the actual companies' disclosure practice reported in Table 5-3 in chapter five shows a large gap

between users' demands for environmental performance and policies theme information and the supplied information about this theme by corporations.¹²

Within all respondent groups the institutional investors indicated the strongest mean for asking/expecting this theme information while auditors on the contrary showed the least attention to this theme with a mean of 3.95/5. The high demand for environmental performance and policies theme in this study is consistent with the findings in some previous studies (e.g. Tilt, 1994; Deegan & Rankin, 1997 and 1999).

The human resources theme was ranked as the second asked/expected theme by 201/229 (87.8%) with a mean of 4.01/5. The analysis of disclosure data in chapter five provides evidence of relatively high attention to the disclosure of this type of information by companies. It should be noticed that the high attention to this theme is supported across many studies in this field. However, as has been discussed in the previous chapter, various explanations linked to corporate legitimacy have been used for the rationale behind such attention and disclosure for this theme.

Customer satisfaction and product quality was the third favourite CSR theme asked/expected from companies. This theme was ranked by 217/229 (94.8%) of the respondents with a mean of 3.02/5. Although the relatively high rate and

¹² As Table 5-3 in chapter five shows, environmental performance and policies information is reported only by 26 per cent of companies and the amount of disclosure represents only 5.8 per cent of total CSR disclosure in this study.

level of disclosure of this theme reported in chapter five (see under section 5.4) considered to be unexpected, it seems the ‘unexpected’ view about this theme would be irrelevant given respondents’ perceptions as summarised in Table 6-8. In this respect, perhaps the disclosure practice results indicate that to some extent it is consistent with the users’ expectations.

The community activities and energy consumption issues were the last two themes in rank order by 130 and 147/229 (56.8% and 64.2%) with means of 2.69 and 2.39/5 respectively. In regard to the last two themes, community activities and energy consumption, interestingly, the respondents’ ranking matches the ranks of these two themes in the actual disclosure reported in Table 5-3 in chapter five. However, it should be noticed that these consistent ranking or order results between the respondents’ point of view and the actual practice do not necessarily convey a satisfactory level of CSR disclosures for the respondent groups. The next section analyses and discusses the issue of insufficiency of CSR information from the respondent groups’ perspective.

Separate Kruskal-Wallis tests were carried out for each of these activities to discover differences or homogeneity of respondent groups in terms of various activities and CSR themes through testing the following null-hypothesis:

There is no difference among the respondent groups in regard to different disclosure categories of CSR.

The test results showed statistically significant differences at 1% level among respondent groups about human resources and energy consumption, at 5%

level for customer satisfaction and product quality, and at 10% level for environmental performance and policies. The tests however did not reject the null-hypothesis about the community activities theme.

Table 6-8
Ranking of CSR information themes asked/expected by the respondents

User groups	Human resources			Environmental performance and policies			Community activities			Energy consumption			Customer satisfaction and product quality		
	M1	M2	STD	M1	M2	STD	M1	Mean	STD	M1	M2	STD	M1	Mean	STD
Auditors	4.10	4.0	0.852	3.95	4.0	1.007	2.8	2.0	1.231	2.39	3.0	1.358	3.09	3.0	1.519
Academics	4.40	5.0	0.720	4.15	4.0	0.727	2.74	2.0	1.094	1.81	1.0	1.001	2.70	3.0	1.334
Stockbrokers	3.78	4.0	0.854	4.15	4.0	.842	2.38	2.0	0.359	2.04	2.0	0.693	3.33	4.0	1.610
Bank Loan Off's	4.16	4.0	1.015	4.05	4.0	.887	2.86	3.0	0.949	2.31	2.0	1.302	2.35	2.0	1.348
Inst. Investors	2.92	3.0	1.018	4.61	5.0	0.499	3.00	2.50	1.414	4.00	4.0	0.00	3.64	3.0	1.002
Bus. Managers	4.56	5.0	0.784	4	4.0	0.555	2.55	3.0	1.508	2.84	2.0	1.167	2.84	3.0	1.425
Total	4.01	4.0	0.967	4.12	4.0	0.842	2.69	2.0	1.219	2.39	2.0	1.219	3.02	3.0	1.461
*N		201			201			130			147			217	

*A number of respondents did not provide information for all parts of this question, consequently total of respondent numbers are different
M1 = Mean, M2 = Median, STD = Standard Deviation

6.6 Understanding, Credibility and Sufficiency of CSR

The respondents’ opinions were also asked about the understandability, credibility and overall sufficiency of CSR information. In response to the question of whether the amount of CSR currently available is sufficient regardless of being noticed by respondents, a large number of participants responded ‘no’. The results are reported in Table 6-9.

Table 6-9			
Frequency of respondents considering insufficiency of CSR			
User groups	Number responses to this question	Number of responses considering available CSR to be insufficient	Percentage of the group
Auditors	81	60	74.1
Academics	49	43	87.8
Stockbrokers	61	23	37.7
Bank Loan Officers	56	27	48.2
Inst. Investors	29	15	51.7
Bus. Managers	34	16	47.1
Total	310/333	184/310	59.4

As Table 6-9 indicates, there is relatively strong consensus that the amount of CSR information currently available is insufficient. The overall proportion of respondents who considered the presently available CSR information to be insufficient was 59.4 per cent, with 87.4 per cent of academics; 74.1 per cent of auditors; 51.7 per cent of institutional investors; 48.2 per cent of bank loan officers; 47.1 of business managers and 37.7 per cent of stockbrokers. The

overall users' perception of insufficiency of CSR in this study is relatively consistent with the results of prior studies which also observed that CSR information reported by companies is insufficient (for example, Tilt, 1994).

When further analysis was performed to determine if the percentage given an opinion of insufficiency of CSR was independent of respondent category, this was rejected (Chi-Square 41.220, D.F. = 5, $p = 0.000$).

The opinion of the respondent groups was then sought concerning understanding, credibility and degree of insufficiency of the current CSR information produced by companies. To determine how respondent groups perceived the understandability of CSR information, the survey participants were asked to rank their perceptions. Once again they were presented on a five-point Likert scale with one representing very difficult and five representing very easy to understand. This was followed by ranking the credibility with one representing no credibility, and five representing high credibility for each item of CSR themes separately. The respondents were then asked to rank insufficiency of the currently available CSR information (if they thought appropriate) using a similar five-point Likert scale. The rank one represented insufficient and five represented extremely insufficient.

For the purpose of the study, any score above 3 was construed to be easy to understand, highly credible and extremely insufficient whereas any score below 3 was regarded as difficult to understand, less credible and insufficient. The

mean and median ranks given for each of these areas are summarised in Table 6-10.

As can be seen in Table 6-10, overall, the community activities theme was perceived as being the easiest form of CSR themes to understand, as well it received the lowest credibility scores with a mean of 2.99 (out of 5) among all themes by respondents. On the other hand, the human resources theme was perceived as the most credible CSR theme. Within groups, comparisons show academics ranked the community activities theme as the easiest type of CSR to understand with a mean of 4.44/5. Interestingly, the business manager group ranked the credibility of this theme with the lowest mean, 2.68/5, across all respondent groups. The comparison also shows human resources ranked by bank loan officers; environmental performance and policies ranked by stockbrokers; community activities again ranked by stockbrokers; energy consumption ranked by bank loan officers; and customer satisfaction and product quality information ranked by institutional investors as the hardest theme to understand.

From the credibility ranking point of view, the group comparisons show stockbrokers gave the highest and lowest ranking to human resources, and customer satisfaction and product quality themes respectively. The ‘other’ option was also available for the questions of ranking understandability and credibility but for both cases only two respondents ranked this option. Due to

the statistical validity of such a low number for this option, these rankings were disregarded.

In regard to the level of insufficiency, the academics, auditors, and business managers ranked the level of current CSR information as extremely insufficient (3.49, 3.25, and 3.06) while bank loan officers, stockbrokers, and institutional investors ranked it as insufficient (2.63, 2.48 and 2.07).

Table 6-10								
Understanding, credibility and sufficiency of CSR by user groups: mean (Std. Deviation) and median of responses								
Disclosure theme	Aud.	Aca.	S.B.	B.L.O.	Inst. Inv.	Bus. Man	Total (%)	*N
Understandability								
Human resources	3.59 (1.203) 4.00	4.17 (0.803) 4.00	3.76 (0.831) 4.00	3.48 (0.960) 3.00	3.97 (0.981) 4.00	4.06 (0.716) 4.00	3.80 (0.959) 4.00	267
Environment's performance and policies	3.26 (0.966) 3.00	3.86 (0.640) 4.00	3.14 (0.814) 3.00	3.26 (0.444) 3.00	3.48 (0.509)- 3.00	3.78 (0.832) 4.00	3.38 (0.783) 3.00	240
Community activities	3.84 (0.886) 4.00	4.44 (0.511) 4.00	3.57 (0.722) 3.00	3.95 (1.214) 5.00	3.93 (0.998) 3.00	3.91 (1.058) 4.00	3.85 (0.925) 4.00	199
Energy consumption	3.26 (1.238) 3.00	2.89 (0.782) 3.00	3.38 (0.493) 3.00	2.73 (0.703) 3.00	3.29 (0.588) 3.00	3.55 (0.999) 4.00	3.23 (0.894) 3.00	136
Customer satisfaction and product quality	3.28 (1.082) 3.00	3.85 (0.823) ⁴ 4.00	3.41 (0.868) 3.00	3.20 (0.548) 3.00	2.97 (1.017) 2.00	3.88 (1.129) 4.00	3.42 (0.957) 3.00	272
Credibility								
Human resources	3.24 (0.892) 3.00	3.27 (0.452) 3.00	3.41 (0.738) 3.00	3.78 (1.006) 4.00	3.52 (0.509) 4.00	3.32 (0.843) 3.00	3.44 (0.806) 3.00	264

Environment's performance and policies	2.98 (0.800) 3.00	3.00 (.000) 3.00	3.21 (.484) 3.00	2.71 (0.457) 3.00	3.14 (0.581) 3.00	3.47 (.950) 3.50	3.07 (0.654) 3.00	237
Community activities	3.11 (0.875) 3.00	3.00 (0.000) 3.00	3.18 (0.386) 3.00	2.83 (0.381) 3.00	3.03 (0.186) 3.00	2.68 (0.976) 3.00	2.99 (0.628) 3.00	181
Energy consumption	2.91 (1.026) 4.00	2.89 (0.333) 3.00	3.21 (0.914) 3.00	3.05 (0.486) 3.00	2.94 (0.429) 3.00	3.20 (0.894) 3.00	3.05 (0.810) 3.00	136
Customer satisfaction and product quality	3.54 (0.936) 3.50	3.49 (1.207) 4.00	3.24 (0.649) 3.00	2.81 (0.487) 3.00	2.59 (0.568) 3.00	2.97 (1.337) 3.00	3.14 (0.934) 3.00	270
	Aud.	Aca.	S.B.	B.L.O.	Inst. Inv.	Bus. Man	Total (%)	N
Sufficiency								
Overall	3.25 (1.348) 3.00	3.49 (1.009) 4.00	2.48 (1.082) 3.00	2.63 (1.079) 3.00	2.07 (0.961) 2	3.06 (1.063) 3.00	3.01 (1.221) 3.00	184

*A number of respondents provide information for part of these questions, consequently resulted are in different numbers

6.7 Additional CSR Information

Respondents were also asked to indicate if there is any particular CSR information (other than those five themes identified in this study) that they believe should be disclosed and if so what kind of information, how and where should it be disclosed. The results are reported in Table 6-11.

User groups	Number of responses to this question	Number of responses believing in additional information	Percentage of the group
Auditors	88	24	27.3
Academics	42	13	30.1
Stockbrokers	60	11	18.3
Bank loan off's	49	14	28.6
Inst. investors	29	6	20.1
Bus. managers	34	9	26.5
Total	302	77	25.5

The proportion of users who believed in additional CSR information was 25.5 per cent. One suggestion for such a result could be that the identified CSR themes are able to represent all types of CSR information for most of the respondents. By analysing the open question of specifying the types of information that respondents believed to be disclosed as the additional theme, just 16/77 participants attempted this question. Then by investigating the suggested additional CSR themes, it was found no new theme was proposed rather suggestions were sub-themes which had already been identified under one of the five main themes. The specified items suggested referred to issues such as air, soil, water and noise pollution, safety of products, employee contributions in business management, employment of disabled, and charities to the local and national organisations.

6.8 Disclosure Format of CSR Information

The respondents’ opinions were then asked about type and disclosure format of CSR information. The views of users related to how this information should be disclosed whether as narrative/descriptive disclosure, quantitative disclosure (the amount of money or the number and statistics), or both qualitative and quantitative disclosure were sought. They were also asked to rank their selection if it was more than one answer in order of their preference method from most to least (1=most)¹³. Table 6-12 shows the results of users’ preference method of disclosing additional CSR.

As Table 6-12 shows, clearly, the disclosing format of combined quantitative and qualitative CSR disclosure is the most preferred format for the respondents (mean 2.47/3), with disclosing only qualitative as the second (mean 1.95/3). This certainly indicates that quantitative CSR disclosure format is not a favourite format for the respondents. The auditors, academics and stockbrokers showed greater support (means 2.87, 2.84 and 2.37 respectively), for the combined quantitative and qualitative format while the business managers, institutional investors and bank loan officers put more emphasises (means 2.57, 2.43 and 2.08 respectively) on qualitative format as their preferred disclosing format for CSR disclosure.

¹³ For statistical purposes this ranking was converted to 3 for the most and 1 for the least. No participant ranked the ‘other’ option.

Table 6-12
Frequencies (ranking) of format of CSR disclosure by respondent groups

User groups	Qualitative disclosure preference			Quantitative disclosure preference			Qualitative and quantitative preference		
	Median	Mean	STD	Median	Mean	STD	Median	Mean	STD
Auditors	2.00	1.72	0.797	2.00	1.94	0.619	3.00	2.84	0.514
Academics	2.00	0.881	1.92	2.00	1.95	0.605	3.00	2.87	0.428
Stockbrokers	2.00	1.69	0618	2.00	1.65	0.689	3.00	2.37	0.926
Bank Loan Off's	2.00	2.08	0.641	2.00	1.90	0738	1.00	1.77	0.992
Inst. Investors	3.00	2.43	0.787	1.50	1.63	0.744	2.00	2.22	0.833
Bus. Managers	3.00	2.57	0.756	1.50	1.50	0.519	2.00	1.93	0.802
Total	2.00	1.95	0.800	2.00	1.79	0.651	3.00	2.47	0.838
N		113			110			156	

6.9 Users' Preferred CSR Venue/s

The respondents were then asked in their opinion where CSR information should be disclosed. If they believed in more than one venue, then they were asked to rank their selection in order of preferred places from most to least (1=most¹⁴). Table 6-13 shows the results.

Annual reports were by far the most commonly preferred venue to find CSR information, nominated by 301/333 of the respondents with a ranking mean of 4.53/5 (Tilt, 1994 and Deegan & Rankin, 1997)¹⁵. The company web-site was the second favourite medium for disclosure of CSR information ranked by 263/331 of respondents with a mean of 3.68/5¹⁶. The advertisements or media releases medium has been positioned as the third preferred medium by 255/331 with a mean of 3.62/5. With greater differences in the statistical means (lower), the supplements to annual reports and 'other' media have been ranked as the last preferred media (2.28 and 2.27/5, 164 and 132/333 respectively) by the respondents.

The group comparison results show that all respondent groups ranked annual reports as their first preference for disclosure of CSR information. There are mixed results in regard to ranking the other media. While the company web-site is ranked as the second favourite CSR information venue by auditors,

¹⁴ For statistical purposes the values converted the other way around, 5 = the most preferred and 1 = the least.

¹⁵ See relevant discussion under section 6-3, pp.177-178.

¹⁶ See relevant discussion on the growth of internet usage in Iran under section 6-4, pp.183-184.

stockbrokers, institutional investors and business managers, the academics and bank loan officers selected the advertisements or media releases as their second preferences. Vice versa was the position of the advertisements or media releases and the company web-site.

Separate Kruskal-Wallis tests were carried out for each of the mediums of CSR information to discover differences or homogeneity of user groups’ preferences about the CSR information media through testing the following null-hypothesis:

There is no difference in ranking of the CSR information media among user groups.

The Kruskal-Wallis tests’ results showed statistically significant differences at 1% level for all media. Therefore, the null-hypothesis that there are homogeneous rankings across all respondent groups of a CSR information medium is rejected across all media except for the supplements to the annual reports.

Table 6-13
The ranking of CSR information disclosure media

User groups	Annual reports			Sup. to annual reports			Adv. & media releases			Company web-site			Other		
	M1	M2	STD	M1	M2	STD	M1	M2	STD	M1	M2	STD	M1	M2	STD
Auditors	4.51	5.0	0.878	2.37	2.0	1.215	3.77	4.0	0.780	3.97	4.0	0.847	2.44	2.0	1.29
Academics	4.57	5.0	0.688	2.29	2.0	1.060	3.57	4.0	0.703	3.52	3.0	1.130	1.92	2.0	0.997
Stockbrokers	4.69	5.0	0.633	1.89	2.0	1.060	3.32	3.0	0.683	3.54	4.0	1.005	2.00	2.0	0.863
Bank Loan Off's	4.21	4.0	0.948	1.93	2.0	0.979	3.87	4.0	0.991	3.38	3.0	1.004	3.18	3.0	1.185
Inst. Investors	4.46	5.0	0.81	3.08	3.0	1.379	3.61	3.5	0.979	3.90	4.0	0.852	2.33	2.0	1.033
Bus. Managers	4.81	5.0	0.396	2.94	3.0	1.197	3.71	4.0	0.985	3.92	4.0	0.572	2.12	1.5	1.356
Total	4.53	5.0	0.790	2.28	2.0	1.170	3.62	4.0	0.837	3.68	4.0	0.967	2.27	2.0	1.138
*N		301			164			255			263			132	

*A number of respondents did not provide information for all part of this question, consequently total of respondent numbers are different
M1 = Mean, M2 = Median, STD = Standard Deviation

6.10 Mandatory Status and Importance of Regulatory Providers by User Groups of CSR

The opinion of the respondents was also sought towards the mandatory status of CSR disclosure in the annual reports. A summary of their responses is provided in Table 6-14. Respondents' views towards establishing the mandatory status of CSR disclosure is tending towards support with 88.8 per cent of respondents (293 out of 330) feeling that standards or legislation are necessary.

A Kruskal-Wallis test was performed to determine if there was no significant difference in opinion among the various user groups regarding mandatory status of CSR guidelines through testing the following null-hypothesis:

There is no difference among the groups of users about mandatory status of CSR.

The results show a statistically significant difference at 1% level among user groups about mandatory status of CSR (Chi-Square = 34.795, D.F. = 5, P = 0.000).

User groups	Number responses to this question	Number of responses supporting mandatory requirements	Percentage of the group
Auditors	94	86	91.5
Academics	51	51	100
Stockbrokers	68	51	75
Bank Loan Officers	56	53	94.6
Inst. Investors	29	29	100
Bus. Managers	32	23	71.9
Total	330	293	88.8

The opinion of the respondents was then sought towards the importance of each source of disclosure guidelines with one representing unimportant, and five representing highly important. A summary of their responses is provided in Table 6-15. Between two options of reporting guidelines produced by government or professional bodies, the more important provider of guidelines among all respondent groups is the government with a mean equal to 4.35 compared with the mean of 3.74 for professional bodies. This is consistent with Deegan & Rankin’s (1997) findings which also observed that overall, the government is preferred to accounting professional. One possible reason for such a perception is that the government could have enforcement power behind its guidelines and policies, whereas professional bodies do not automatically have such authorities and power. Within respondent groups, tests show government is a preferred source of disclosure guidelines/regulations by all

groups except business managers. The business managers group preferred professional bodies. The mean was 4.48 compared with that of the government with a mean of 3.95.

Separate Kruskal-Wallis tests were also carried out for both providers of guidelines/standards to find out whether there was homogeneity between user groups in terms of influence in their decision making, and to test the following hypothesis:

There is no difference among user groups on the importance placed on provider of CSR guidelines/standards.

The results of the Kruskal-Wallis test indicate statistically significant difference at 1% level among user groups for both professional bodies (Chi-Square = 48.564, D.F. = 5, and P = 0.000) and government (Chi-Square = 21.223, D.F. = 5, and P = 0.001). Therefore, the null-hypothesis is rejected.

User groups	Professional bodies			Government		
	Mean, Median, STD, (rank)			Mean, Median, STD, (rank)		
	Mean	Median	STD	Mean	Median	STD
Auditors	4.03, (3)	4.00	0.913	4.19, (4)	4.00	0.925
Academics	4.32, (2)	5.00	1.006	4.75, (1)	5.00	0.670
Stockbrokers	3.41, (5)	3.00	1.627	4.18, (5)	5.00	1.212
Bank Loan Officers	3.58, (4)	4.50	1.613	4.53, (3)	5.00	0.909
Inst. Investors	2.28, (6)	3.00	1.066	4.59, (2)	5.00	0.682
Bus. Managers	4.48, (1)	5.00	0.665	3.95, (6)	5.00	1.026
Total	3.74,	4.00	1.359	4.35	5.00	0.961
N	285			265		

1 = unimportant and 5 = highly important.

6.11 Summary

This chapter discussed the results of the corporate information user groups questionnaire survey. The Kruskal-Wallis tests were carried out to test the nominated null-hypotheses. The results indicate 99 per cent of users have obtained an academic degree from universities in commerce or other relevant studies. The length of work experience is different and there is no homogeneity in the length of work experience between user groups. The results also show that 96.7 per cent of respondents receive/seek and 93.1 per cent had read/seen CSR information. The annual reports were perceived as the main source (given the highest rank) of CSR information received/sought and read/seen by user groups. The results also show annual reports medium was ranked as the rank

one medium in terms of received/sought and read/seen CSR information by all user groups. The three most referred media for CSR information received/sought and read/seen are annual reports, advertisements or media releases, and company web-site.

In regard to the proportion of respondents who ask/expect CSR, the results indicated that 70.2 percent (229/326) of respondents asked/expected CSR about or from companies. Academics are shown to be the most interested group asking/expecting CSR information about or from companies. Among different categories of CSR themes (human resources, environmental performance and policies, community activities, energy consumption and customer satisfaction and product quality), environmental performance and policies information was ranked as the most favourite theme to ask/expect about or from companies. In contrast the energy consumption theme was found to be the least favourite theme.

All respondent groups believed that CSR information is insufficient with lower degree of insufficiencies by stockbrokers and institutional investors. One of the most outstanding results to emerge from the study is the human resources theme as the most credible type of CSR. However, its score was not particularly high, gaining a mean of 3.44. This could be an indication that although there is much room for improvement, the human resources theme is currently the most acceptable type of CSR and easy to understand (after the community activities theme) by respondent groups in Iran. Interestingly as discussed in chapter five,

in current practice in Iran the amount of human resource disclosures is by far the greatest number of CSR themes by Iranian listed companies.

Although community activities theme is the easiest theme to understand with a mean of 3.85/5, it is the lowest credible type of CSR. The combined format of quantitative and qualitative disclosure of CSR was strongly supported by all respondent groups. The respondents also strongly supported the annual reports medium as the primary place to disclose CSR information. However, usage of company web-site was the most favourable venue to see CSR information after annual reports. Finally, the mandatory CSR disclosure was supported by 293/330 (88.8%) of respondents. The government was nominated as the most favourable body to issue guidelines about CSR disclosures.

Chapter Seven

Summary, Conclusions, Implications, Limitations & Future Studies

7.1 Introduction

This study has presented an empirical investigation into the CSR practices, needs and perceptions in Iran. In doing so, it provides a detailed description of such practices, needs and perceptions. In addition, by using sampling, data collection and measurement techniques consistent with those used in other countries¹, the study allows some comparisons with other studies.

This chapter covers the concluding issues within the research project for this study. It starts with a summary and the conclusions of the study. It then continues with discussions that address the implications, limitations and finishes with recommendations for future studies.

¹ From both developed and developing countries

7.2 Summary and Conclusions

This study has been established and conducted for two primary purposes. The first one was to examine the CSR practices in Iran. For this purpose content analysis method was applied to collect data from the annual reports of listed companies on the TSE. The data was analysed to determine the extent of CSR disclosures and their possible relationships with four company characteristics, namely the size, profitability, financial leverage and industry type. The second purpose was to investigate corporate stakeholders' CSR needs and perceptions using a questionnaire as the research instrument. The following sub-sections provide a summary of the research process and the relevant conclusions.

7.2.1 Introduction to the Research

The thesis started with general discussions about CSR and the primary purposes of this study. The discussions continued with the concept and definition of CSR. It was found there is no generally accepted theory or meaning of CSR. The current literature commonly refers to CSR practices as unsystematic and unregulated reporting activities that can be constructed around various types of information (Gray, Owen & Adams, 1996). This study considered disclosures about human resources; environmental performance and policies; community activities; energy consumption; and customer satisfaction and product quality as the CSR items.

Based on the research framework, the research questions were drawn. The justification of the study was another issue discussed in chapter one. A further issue raised in chapter one was Iran's unique features differentiating it from

business cultures and values in other countries. These differences provide justification for the study of CSR practices in Iran. The study was considered important for two major reasons; first, the CSR practices of Iranian companies were relatively unknown due to the lack of research in this area and secondly, from an international point of view, CSR practice studies have mainly focused on developed countries. Studies such as this one could expand the pool of knowledge of CSR, in particular in the Middle East region.

7.2.2 Corporate Reporting Environment in Iran

The second chapter followed the study with a review of the Iranian corporate reporting environment. It is believed that the function of the accounting system is greatly influenced by the environmental factors of the country (Baydoun & Willett, 1995). Therefore, an analysis of such factors' structures and progress can be a valuable tool in explaining and understanding differences in the ways a business operates in different countries (Radebaugh & Gray, 2002). Four general factors were identified as the influential factors relevant to corporate reporting practices in Iran².

7.2.3 Literature Review

The third chapter reviewed the CSR literature on both CSR practices and corporate stakeholders' CSR needs and perceptions. The review started with a brief overview of the literature on the history of CSR practices. In order to have

² These factors were the demographic situation, the legal and regulatory systems, the capital market and stock exchange, and the accounting profession and accounting standards as have been discussed in chapter 2.

a better understanding of the directions and conclusions in the previous studies, the studies were grouped in three categories, those which focused on developed countries, those on developing countries and those on international studies. The literature review of users' needs and perceptions was the second major issue followed through in chapter three. It was evident that past studies mainly focused on overall disclosure rather than being specific to CSR disclosure (for example, Adhikari & Tondkar, 1992; Botosan, 1997; Wallace, 1988; Mirshekary & Saudagaran, 2005). During the last two decades interest in CSR reporting and as a result investigation of users' needs and perceptions of this type of information has grown rapidly. These studies concentrated on users' CSR needs and perceptions from two points of view, managerial and non-managerial stakeholders (for example, Tilt, 1994 & 2003; Owen, Deegan & Rankin, 1997 & 1999; Swift & Hunt, 2001; Unerman & Bennett, 2004; and Solomon & Solomon, 2006).

7.2.4 The Research Methodology

The research methodology was discussed in chapter four. Annual reports of the sample companies and a questionnaire survey considered the two data sources for this study. Annual reports have found to be the most frequently used sources of CSR information disclosed by companies (for example, Laine, 2009; Deegan, Rankin & Tobin, 2002; Purushothaman et al., 2000; Deegan, & Rankin, 1996; Hackston & Milne, 1996; Gray, Kouhy & Lavers, 1995_b; Zeghal & Ahmad, 1990). Content analysis as a common method was used to collect CSR data. Decision rules were set in respect to each targeted social disclosure category. The literature indicated the application of various measurement units of data for

these type of studies such as number of pages, paragraphs, sentences and words. The 'word' was selected as an appropriate measurement unit for this study. This study did not distinguish between voluntary and mandatory CSR information due to immateriality of mandatory CSR disclosure requirements in Iran. Stability and reproducibility tests were conducted to ensure the reliability of data collected from the annual reports. The results of both tests confirmed the reliability of the content analysis data. This study identified four company characteristics, namely the size, profitability, financial leverage and industry type as the independent/explanatory variables. The total assets, rate of return on assets, gearing ratio and the Global Industry Classification were respectively considered as the measures and benchmarks for the independent variables.

In this study a questionnaire was also used to collect data about users' needs and perceptions of various aspects of CSR disclosures. Prior to the main distribution process of the questionnaire, a pilot survey was conducted in order to discover the possible deficiencies. Auditors, academics, bank loan officers, business managers, institutional investors and stockbrokers were selected as the common users of financial reports.

7.2.5 Analyses of CSR Practices -Content Analysis Data

Chapter five presented the statistical analyses and discussion of the content analysis data. The findings in the chapter were responses to the research questions 1-3, discussed in chapter one.

The aggregated descriptive statistical analyses were used to view the overall CSR disclosures in annual reports. The results of these analyses indicate that

human resources information is reported by all sample companies. This theme disclosure contributed more than 67 per cent of overall CSR disclosures in the annual reports. This theme has been found to be significant in most studies in this area. The customer satisfaction and product quality theme also received significant attention. It was identified as the second most disclosed theme in the ranking. The theme was reported by 61.2 per cent of the sample companies - that was 20.9 per cent of the total CSR disclosures. The level of attention to this theme was consistent with some other studies.

The remaining themes, environmental performance and policies, community activities and energy consumption were the last three in ranking respectively being reported by 26.2, 24.3 and 12.3 per cent of the sample companies. The relative disclosures counted for 5.8, 3.9 and 2.1 per cent of the total disclosure. The literature indicates mixed results of the level of disclosure for these themes. It also suggests that the differences can be caused by various influential factors. This study used four common possible factors (mentioned earlier in this section as the independent variables) to test the affect (if any) of these factors on the level of disclosure.

Further, the statistical analyses continued with multiple regression analyses. These analyses were conducted to determine the type of relationships that existed between CSR disclosures and four company characteristics. The regression results in Table 5-13 reveal the existence of differences in the extent and themes of CSR disclosure. The size characteristic showed a statistically significant positive relationship with the overall level of CSR disclosure. That generally can be interpreted as the larger the company, the higher the level of

CSR disclosure. In this regard, the result was consistent with some past studies (for example, Trotman & Bradley, 1981; Patten, 1991; Belkaoui & Karpik, 1989; Hackston & Milne 1996; and Purushothaman et al., 2000). The other variables were found to be statistically insignificant in explaining the overall CSR disclosure.

In separate analyses using the same regression model for each CSR theme, the following results have been concluded:

- None of the independent/explanatory variables individually, or as a group, were statistically significant in explaining disclosure of the human resource theme.
- The industry type and the size characteristics of companies had statistically significant relationships with the level of the environmental performance and policies theme disclosure. The results indicated that when the companies' operations were more directly related to the natural environment or/and sensitive chemical processing, they tended to disclose more on this theme. It was also found that the larger firms tended to disclose more about environmental performance and policies.
- The industry type characteristic had a statistically significant relationship with the level of the community activities theme disclosure. The non-manufacturing sector disclosed relatively more about its community activities than the other three sectors.
- The industry type and size characteristics similar to the environmental performance and policies theme showed statistically significant relationships with the level of the energy consumption theme disclosure.

The industries involved directly with natural environment (EMA sector) and primary industries (ICD sector) tended to disclose this theme more than the other two sectors. The results also indicated that the larger firms tended to disclose more on this theme.

- The industry type and size again were the two independent variables that had statistically significant relationships with the level of customer satisfaction & product quality theme disclosure. The industry and consumer discretionary (ICD) sector showed a higher level of disclosure compared to the other sectors. It was discussed that this behaviour might be an indication of the greater market pressure in this sector. The size characteristic with a positive statistically significant relationship indicated that the larger companies tended to disclose more about this theme than the smaller ones.

7.2.6 Analyses of Users' Needs and Perceptions - Questionnaire Data

Chapter six provided an insight into the CSR needs and perceptions from the corporate stakeholders' point of view in Iran. The questionnaire survey data has been analysed and results were reported and discussed in the chapter. The results generally supported the view that the stakeholders seek, read and expect CSR information from companies. The findings of the analyses have addressed the research questions 4-7, discussed in chapter one.

Most of the respondents (96.7%) indicated they receive/seek CSR information from companies, and 89.4 per cent ranked annual reports as the most readily available source of CSR information. A large number of the respondents

(93.1%) indicated that they read/saw CSR information and 89.6 per cent ranked annual reports as the main source to read CSR information. The advertisements or media releases, the company web-site, supplements to annual reports, and the 'other' mediums have been ranked in respective order as the alternative sources of CSR information by the stakeholder groups.

The respondents were also asked whether they asked/expected CSR information. The results indicate 70.2 per cent of the respondents asked/expected this type of information. The environmental performance and policies theme was ranked as the most asked/expected theme. Human resources, customer satisfaction and product quality, community activities and energy consumption, were ranked after the environmental performance and policies in that order respectively. Academics were reported as the most (92.2%) and bank loan officer the least (37.0%) interested stakeholder groups asking/expecting CSR information.

The current level of CSR disclosures was considered insufficient by 59.4 per cent of the respondents. The level of understandability and credibility were also ranked as relatively acceptable. However improvement was needed in some areas. The results indicated that the community activities and human resources themes were perceived as the most understandable and credible themes of CSR information. The method of combined narrative and quantified CSR disclosure was considered as the preferred disclosure method for CSR disclosure. The annual report was considered as the most preferential place of additional CSR by stakeholder groups. The results also indicated that a majority of respondents strongly supported the mandatory status of CSR. The

government was considered as the most important source of CSR disclosure guidelines.

7.3 Implications

One of the primary purposes of this study was to examine the extent of CSR disclosure in the annual reports and its possible relationships with four company characteristics. Using the 'word' as a measure of the extent of the CSR disclosure, the study found mixed patterns of the extent of CSR disclosures across themes. The study also found various degrees of relationships between the types of CSR disclosures and some company characteristics (for example, the size and industry type). The second primary purpose of this study was to investigate CSR disclosure needs and perceptions by Iranian corporate stakeholder groups. The environmental performance and policies theme was ranked number one out of the five CSR themes asked/expected by the respondents. Companies' annual reports were to be the main source of CSR information. The overall level of CSR disclosure has been viewed as insufficient. Results also indicate that CSR disclosures should be mandatory under the government guidelines.

Since the CSR disclosure is very limited³ in Iran, the extent of CSR disclosure may be achieved by mandating (to be verifiable) some types of CSR information that are socially and environmentally crucial for welfare and sustainability of society and the natural environment in the long run. This view is consistent with the major stakeholder groups' views based on the results discussed earlier. In

³ All CSR disclosures are voluntary with the exception of two very minor requirements in regard to the human resources theme. For more details see the footnotes under section 5.4 in chapter 5.

such an approach for improvement of CSR disclosure, the stakeholder groups' needs and perceptions information from this study could be used as a starting platform.

7.4 Limitations

Studies of this type have certain limitations that need to be taken into account when considering their results. In this study, the data of the extent of CSR disclosure was gathered through the content analysis method which was involved in the reading and interpreting of the content of the sample annual reports. Therefore, subjectivity of judgments would be an inherent limitation for this type of research. However, the following procedures were followed to at least reduce such risk: firstly, the categories of CSR disclosures and decision rules were defined as clearly as possible; secondly, recoding of a sample of the sample annual reports was conducted by the second coder. As a result subjectivity of judgments was reduced as much as possible. The reproducibility test result is evidence of such a conclusion.

The other very general type of limitation that must be identified was the risk of data entry. This study involved massive data entry from the content analysis process and the questionnaire survey. As has been explained through out this thesis every effort has been made to minimise this risk. However, the risk of incorrect entry cannot be completely avoided.

As stated in the research methodology in chapter 3, the selected stakeholder groups list did not include the individual investors or shareholders due to unavailability of personal information (name & address) of such group. Lack of

having such a stakeholder group in the sample was a limitation in analysing stakeholder groups' CSR information needs and perceptions. Inclusion of this particular stakeholder group in a similar survey can be an important consideration for future studies.

7.5 Future Research

This study was partly devoted to an assessment of the extent of CSR disclosures in annual reports and their possible relationships with four company characteristics. The low R^2 s resulting from the regression analysis opened an opportunity to expand this study. Future studies can take into consideration other factors which may affect the level of CSR disclosures by Iranian listed companies, for example the legal status of companies' ownership.

This study mainly focused on the users' point of view in examining CSR disclosure. The preparers of the corporate annual reports or any other forms of corporate information are the main players that shape and direct the quality and quantity of such information including CSR. Research to get firsthand knowledge about preparers' reasons, motivations and judgments on CSR disclosure might be another interesting area to work on. Further, such a study can be developed in a way that could identify the gaps between users and preparers of CSR information.

While the focus of this study was to investigate CSR practices in Iran, an international comparative study across countries such as Iran, Turkey, Pakistan

and Arab countries around the Persian Gulf in the Middle East region may become a focus of further study.

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Appendices

Participant Information Sheet

An Empirical Investigation of Corporate Social Reporting in Iran: Practices, Needs and Perceptions

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Project Overview

In the past, maximisation of wealth for profit organisations was considered as the goal and main object of corporations. Therefore, conventional financial reporting needed to focus on the economic results of transactions between two or more entities. According to Hackston & Milne (1995), corporations can no longer subscribe blindly to the doctrine that the sole social responsibility of corporations is to maximise profit. With the improvement in social conditions and rising standards of living, stakeholders are placing increasing pressure on companies to demonstrate their accountability to society. The research is intended to address accounting for corporate social reporting (CSR). CSR practice in Iran is one of the several areas that have been left untouched in accounting research. The present study would be the first study in this field which attempts to follow the initial steps towards introducing corporate reporting practices within an Iranian context. In order to complete this research, I need to learn about the

various needs of users of financial reports in Iran through the questionnaire. You are one of the users of financial reports being asked to give your opinion on these reports.

Introduction

Corporate Social Reporting (CSR) is defined any information provided by a company regarding its effect on society. In this study the targeted social disclosures are the five themes adopted from the Trotman & Bradley (1981) study which are defined broadly as follows:

- Human Resources (employees health and safety, equity and diversity and employees' training)
- The environmental performance and policies (air, water and soil pollution emissions and control activities)
- Community activities (such as donations to charities, social and sports sponsorship and aid for natural disaster victims)
- Energy consumption (efficient and effective consumption of energy resources)
- Customer satisfaction and product quality (such as ISO qualifications and environmental friendliness)

The Social information can be disclosed in a variety of ways including (this list is not exhaustive):

- In the **annual report** of the company
- In separate **booklets** or leaflets as supplements to the annual report
- As **advertising** or articles in the media
- On the **company web-site**
- **other**

Research Procedure

Participants are requested to fill out the enclosed questionnaire, which will take about 10-15 minutes, depending on the depth of answers given. Participation or non-participation will not affect any participants' employment or academic standing as relevant.

Benefits and Risks

The research proposed has significance in contributing to the existing body of research about corporate social responsibilities and therefore a shift from traditional financial reporting to the corporate social and environmental reporting by companies. Considering the general absence of regulation for this type of information, it is worth knowing whether anybody uses the current information and what is the information demand of users.

The findings are intended to assist professionals of the importance and the relevancy of CSR within the annual reports and to examine whether users consider social and environmental disclosures within company annual reports, to be useful and material to their decision-making.

The current research examines the user perspectives regarding the current and potential adequacy of CSR to meet their information needs.

There are perceived to be no other risks than the loss of time by participants in completing the questionnaire. No compensation is offered for the time spent filling in the questionnaire.

Confidentiality / Anonymity

The confidentiality of the results of my study is also assured. Under no circumstances will your name appear in publications associated with my research unless you provide your express permission and feel it is appropriate.

No identifying information will be requested from participants; however, all identifying information will be deleted from any such publications unless you expressly provide consent to the contrary. Personal information will not be referred to at all in the data analysis or findings presentation.

Outcome / Publication of Results

The information provided will be used to examine the impact of the company's activities (social/environmental) on users of annual reports in Iran. These will, of course, be later used for publications as journal articles or conference presentations. However, all identifying information will be deleted from any such publications unless you expressly provide consent to the contrary. In addition to the benefits this research for value creation by corporations, I am planning to use the information as the basis of my doctoral thesis. I am planning to submit my thesis for formal examination in 2008.

Consent & Right to Withdraw

Participation in the proposed research will be completely voluntary and all data will remain private and confidential. No data will refer to nor request any personal information of those participating unless offered by the participant; and any information collected which may possibly result in the identification of any participant will remain undisclosed. Participants may withdraw their participation at any stage without ramification or follow-up. In addition, a copy of the full final report will be made available to them upon their request at the conclusion of the project. Consent of participation will be obtained via completion of the enclosed consent form.

Questions/ Further Information

For any enquiries, please contact the researcher:

Mr Ali Yaftian on (07) 4930 6874 or Email: a.yaftian@cqu.edu.au

Or Miss Maryam Safari the research assistant in Iran via Tel 0912 389 7864 or Email maryam82safari@yahoo.com

Concerns / Complaints

Please contact the University of Wollongong Ethics Officer on (+612) 4221 4457 should there be any concerns about the nature and/or conduct of this research project.

Feedback

This research is conducted as part of a doctoral thesis in accounting and if you are interested in the results of this research, you can tick one of the following boxes:

I would like to have a copy of results

I would not like to have a copy of results

Your assistance is greatly appreciated.

Part One:

1. What is your occupation? -----□

2. Which category contains your age?

- (i) _____ 20-30
- (ii) _____ 31-40
- (iii) _____ 41-50
- (iv) _____ 51-60
- (v) _____ 61-70
- (vi) _____ Over 71

3. Are you male or female?

- _____ Male
- _____ Female

4. How many years of experience do you possess in your current position? (Please circle one).

- (i) _____ 0-2 years
- (ii) _____ 2-5 years
- (iii) _____ 5-10 years
- (iv) _____ 10 years and more

5. What is your highest academic qualification? (Please circle one)

- (i) Diploma or lower
- (ii) Bachelor or equivalent
- (iii) Master or equivalent
- (iv) PhD or equivalent
- (v) Other (please specify) _____

**6. Is your qualification mentioned in q. 4 above is in Commerce or related area?
(Please circle the appropriate answer). Yes / No.**

**7. Are you a member of the Iranian Institute of Certified Accountants (IICA) or
Iranian Association of Certified Public Accountants (IACPA)? (Please circle the
appropriate answer). Yes / No.**

Part Two:

**1. Do you receive/seek any corporate social reporting (CSR) that has been
provided by companies? (A definition of CSR is provided in the information
sheet attached to this questionnaire).**

YES go to question 2.

NO go to question 3.

**2. If yes, what kind of reports do you receive/seek? (choose one or more, if more
than one please rank those that you do receive from most to least received: 1 =
most, - those not received leave blank)**

(i) Annual reports

(ii) Supplements to annual reports

(iii) Advertisements or media releases

(iv) Company web-site

(v) Other (please specify)_____

**3. Do you actively ask/expect any corporate social disclosures from or about
companies?**

YES go to question 4.

NO go to question 7.

4. If yes, what kind of information do you ask/expect? (choose one or more, if more than one please rank those that you do seek from most to least sought: 1 = most, those not sought leave blank).

- (i) ___ Human resources
 - (ii) ___ Environmental performance & policies
 - (iii) ___ Community activities
 - (iv) ___ Energy consumption
 - (v) ___ Customer satisfaction and product quality
 - (vi) ___ Other
- (Please specify) _____

5. How do you obtain the information? (choose one or more, if more than one please rank from most used method to least used method: 1 = most):

- (i) ___ Directly from the company
 - (ii) ___ From the media and internet
 - (iii) ___ Other
- (Please specify) _____

6. Have you ever read or seen any kind of Corporate Social Reporting?

- YES ___ go to question 7.
- NO ___ go to question 10.

7. If yes, where have you read or seen? (If more than one is chosen, please rank from most seen to least seen: 1 = most)

- (i) ___ Annual reports
 - (ii) ___ Supplements to annual reports
 - (iii) ___ Advertisements or media release
 - (iv) ___ Company web-site
 - (v) ___ Other
- (Please specify) _____

8. For each type that you have read or seen, please rate how easy this information was to understand (circle appropriate number).

Human resources:

1 _____ 2 _____ 3 _____ 4 _____ 5
Very difficult **Very easy**

Environmental performance & policies:

1 _____ 2 _____ 3 _____ 4 _____ 5
Very difficult **Very easy**

Community activities:

1 _____ 2 _____ 3 _____ 4 _____ 5
Very difficult **Very easy**

Energy consumption:

1 _____ 2 _____ 3 _____ 4 _____ 5
Very difficult **Very easy**

Customer satisfaction and product quality:

1 _____ 2 _____ 3 _____ 4 _____ 5
Very difficult **Very easy**

'Other' (if applicable):

1 _____ 2 _____ 3 _____ 4 _____ 5
Very difficult **Very easy**

9. For each type of information you have read or seen please rate the credibility of each type of corporate social disclosure produced (circle appropriate number).

Human resources:

1 _____ 2 _____ 3 _____ 4 _____ 5
No credibility **High credibility**

Environmental performance & policies:

1 _____ 2 _____ 3 _____ 4 _____ 5
No credibility **High credibility**

Community activities:

1 _____ 2 _____ 3 _____ 4 _____ 5
No credibility **High credibility**

Energy consumption:

1 _____ 2 _____ 3 _____ 4 _____ 5
No credibility **High credibility**

Customer satisfaction and product quality:

1 _____ 2 _____ 3 _____ 4 _____ 5
No credibility **High credibility**

'Other' (if applicable):

1 _____ 2 _____ 3 _____ 4 _____ 5
No credibility **High credibility**

10. Do you think that the amount of corporate social reporting currently available (regardless of being noticed by you) is sufficient?

YES ___ go to question 12.

NO ___ go to question 11.

11. If no, please rate the current amount of CSR available (circle appropriate number).

1 _____ 2 _____ 3 _____ 4 _____ 5
Insufficient Extremely insufficient

12. Are there any specific types of information that you believe should be disclosed?

YES ___ go to question 13.

NO ___ go to question 14.

13. If yes, what types of information do you think should be disclosed?

14. How do you think CSR information should be disclosed? (choose one or more, if more than one please rank those chosen in order of importance from most to least: 1 = most)

- (i) ___ Narratives/descriptions
- (ii) ___ Quantified, monetary or non-monetary terms
- (iii) ___ Both of the above
- (iv) ___ Other

(Please specify) _____

15. Where do you think this information should be disclosed? (if more than one answer is applicable please rank those chosen in order of preference from most to least: 1 = most)

- (i) ___ Annual reports
- (ii) ___ Supplements to annual reports
- (iii) ___ Advertisements or media releases
- (iv) ___ Company web-site
- (v) ___ Other

(Please specify) _____

16. Do you think that there should be any guidelines/regulations governing the corporate social reporting by the accounting professional bodies and/or by the government?

YES ___

NO ___

17. If yes, please rate the importance of each source of reporting guidelines produced (circle appropriate number).

Accounting professional bodies:

1 _____ 2 _____ 3 _____ 4 _____ 5 _____
Unimportant **Highly important**

Government:

1 _____ 2 _____ 3 _____ 4 _____ 5 _____
Unimportant **Highly important**

18. Please make any other comments which you feel may be helpful.

Thank you in advance for your response. I am looking forward to receiving your reply.

Ali M. Yaftian
PhD Candidate in Accounting



پرسشنامه

"بررسی تحلیلی گزارشگری فعالیتهای اجتماعی (Corporate Social Reporting – CSR) در ایران توسط شرکتهای پذیرفته شده در بورس"

خلاصه پروژه

در گذشته، افزایش ثروت هدف اصلی مؤسسات انتفاعی بوده است. بنابراین، گزارشات مالی سنتی می بایست بر نتایج اقتصادی معاملات، میان دو یا چند مؤسسه مستقل متمرکز می شد. بنا بر نظریه هکستون و میلن (1995) شرکت ها امروز، دیگر نمی توانند به نظریه ای معتقد باشند که کورکورانه، تنها مسئولیت اجتماعی آنها را سود دهی می داند. با پیشرفت شرایط اجتماع ی و افزایش سطح معیارهای زندگی، گروه های ذینفع، بطور فزاینده ایی شرکت ها را برای جوابگوئی به جامعه تحت فشار قرار می دهند.

این تحقیق در نظر دارد که گزارشگری فعالیتهای اجتماعی شرکت ها (Corporate Social Reporting-CSR) را مورد بررسی قرار دهد. تحقیق در زمینه CSR در ایران یکی از چندین زمینه ایی است که در تحقیقات حسابداری مغفول مانده است. بر اساس اطلاعات در دسترس این محقق، تحقیق حاضر اولین در نوع خود در این زمینه میباشد که می کوشد مراحل آغازین اقدامات گزارش دهی شرکتی را در مفهوم ایرانی آن دنبال نماید.

مقدمه

در تعریف کلی، CSR شامل گزارش فعالیتهایی میباشد که دارای اثرات عمومی بر جامعه است. در این تحقیق پنج مورد از گزارش های فعالیتهای اجتماعی، اقتباس شده از تحقیق ترومن و برادلی (1981) مورد بررسی قرار میگردد. این گزارش ها شامل موارد زیر میباشد:

- منابع انسانی (ایمنی و سلامت کارکنان، برابری و گوناگونی آموزش کارکنان)
- سیاستها و عملکردهای زیست محیطی (همانند اقدامات و برنامه های پیشگیرانه برای جلوگیری از آلودگی هوا، آب، خاک و صدا)
- فعالیتهای خیریه و عام المنفعه (همانند کمکهای خیریه، حمایت های مالی از فعالیتهای ورزشی و اجتماعی و کمک به قربانیان حوادث طبیعی)
- مصرف انرژی (استفاده مفید و مؤثر از منابع انرژی)
- کیفیت محصولات (همانند ملزومات ایزو و سازگاری با محیط زیست)

اطلاعات فعالیتهای اجتماعی شرکتها از طرق گوناگون به اطلاع استفاده کنندگان از این اطلاعات می رسد. از آن جمله استفاده از وسایل ارتباطی زیر میباشد:

- گزارش سالیانه شرکت

- گزارش جداگانه تحت عنوان ضمیمه گزارش سالیانه
 - تبلیغ یا مقاله در رسانه ها
 - سایت شرکت
- تکمیل این پرسشنامه در حدود 10 تا 15 دقیقه بطول می انجامد .
مشارکت در این تحقیق کاملاً اختیاری خواهد بود . تمام داده ها
محرمانه و خصوصی باقی می ماند. و پرسشنامه ها در محل امنی در
ایران و به مدت 5 سال نگهداری خواهند شد.
- در صورت داشتن هرگونه سؤال، لطفاً از طریق تلفن ها یا E-mail های
زیر با محقق و یا کمک محقق تماس حاصل فرمایید:

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از کمک شما صمیمانه متشکریم .

قسمت اول:

- 1 - شغل شما چیست؟ □ -----
- 2 - سن شما جز کدامیک از گروه های زیر می باشد؟ (لطفاً دور یک
گزینه دایره بکشید)
- 20 - 30 _____ (i)
31 - 40 _____ (ii)
41 - 50 _____ (iii)
51 - 60 _____ (iv)
61 - 70 _____ (v)
71 بیشتر از _____ (vi)
- 3 - جنسیت؟
_____ مرد
_____ زن
- 4 - تجربه شما در شغل فعلی چند سال است؟ (لطفاً دور یک گزینه دایره
بکشید)
- 0-2 سال _____ (i)
2-5 سال _____ (ii)
5-10 سال _____ (iii)
10 سال یا بیشتر _____ (iv)

5 بالاترین مدرک تحصیلی شما چیست؟ (لطفاً دور یک گزینه دایره بکشید)

(i) فوق دیپلم یا پایین تر

(ii) لیسانس یا معادل

(iii) فوق لیسانس یا معادل

(iv) دکترا یا معادل

(v) سایر (لطفاً مشخص کنید) _____

6 - آیا مدرک مورد اشاره در سؤال فوق در رابطه با بازرگانی یا زمینه مرتبط می‌باشد؟ (لطفاً دور یک گزینه دایره بکشید)

بله / خیر

7 - آیا شما یکی از اعضای انجمن حسابداران خبره ایران (IIICA) یا جامعه حسابداران رسمی ایران (IACPA) می‌باشید؟

بله / خیر

قسمت دوم:

1 - آیا شما هیچگونه گزارشی فعالیت‌های اجتماعی **CSR** را که از طرف شرکت‌ها فراهم شده باشد، دریافت کرده یا دیده اید؟ (تعریف **CSR** در برگه اطلاعات ضمیمه شده آورده شده است.)

بله ___ به سؤال 2 بروید.

خیر ___ به سؤال 3 بروید.

2 - اگر بلی، این گزارش‌ها را از طریق کدامیک از روش‌های زیر دریافت کرده اید؟ (یک یا چند مورد را انتخاب کنید، در صورت انتخاب بیش از یک مورد لطفاً آنها را از 1= بیشترین روش مورد استفاده تا کم‌ترین رتبه بندی کنید.)

(i) ___ گزارش‌های سالیانه

(ii) ___ ضمیمه گزارش‌های سالیانه

(iii) ___ تبلیغات یا رسانه

(iv) ___ وب سایت شرکت

(v) ___ سایر (لطفاً مشخص کنید) _____

3- آیا شما هیچگونه گزارشی از فعالیتهای اجتماعی (CSR) را از شرکتها درخواست کرده یا انتظار داشته اید؟

بله ___ به سؤال 4 بروید.
خیر ___ به سؤال 6 بروید.

4- اگر بلی، چه نوعی اطلاعاتی مورد نظر شما بوده است؟ (یک یا چند مورد را انتخاب کنید، در صورت انتخاب بیش از یک مورد لطفاً آنها را از 1= بیشترین روش مورد استفاده تا کمترین رتبه بندی کنید.)

- (i) ___ منابع انسانی
(ii) ___ سیاستها و عملکرد زیست محیطی
(iii) ___ فعالیتهای خیریه و عام المنفعه
(iv) ___ مصرف انرژی
(v) ___ اطلاعات کیفی محصول
(vi) ___ سایر (لطفاً مشخص کنید) _____

5- چگونه این اطلاعات را بدست آورده اید؟ (یک یا چند مورد را انتخاب کنید، در صورت انتخاب بیش از یک مورد لطفاً آنها را از 1= بیشترین روش مورد استفاده تا کمترین رتبه بندی کنید.)

- (i) ___ مستقیماً از شرکت
(ii) ___ از رسانه ها و اینترنت
(iii) ___ سایر (لطفاً مشخص کنید)

6- آیا شما هیچگونه گزارشی از فعالیتهای اجتماعی از طرف شرکتها خوانده و یا دیده اید؟

(اطلاعات فعالیتهای اجتماعی شرکتها از طرق گوناگون به اطلاع استفاده کنندگان از این اطلاعات می رسد. از آن جمله استفاده از وسایل ارتباطی زیر میباشد:

- گزارش سالیانه شرکت
- گزارش جداگانه تحت عنوان ضمیمه گزارش سالیانه
- تبلیغ یا مقاله در رسانه ها و یا سایت شرکت

بله ___ به سؤال 7 بروید.
خیر ___ به سؤال 10 بروید.

7- اگر بلی، کجا خوانده یا دیده اید؟ (اگر بیش از یک مورد انتخاب می کنید، لطفاً از 1 = بیشترین تا کمترین رتبه بندی کنید)

- (i) ___ گزارش های سالیانه
 (ii) ___ ضامم گزارش های سالیانه
 (iii) ___ تبلیغات یا رسانه
 (iv) ___ وب سایت شرکت
 (v) ___ سایر (لطفاً مشخص کنید) _____

8- برای هر نوع اطلاعاتی که تا بحال خوانده یا دیده اید، لطفاً بر اساس میزان سهولت در فهم درجه بندی کنید (دور شماره مناسب دایره بکشید)

منابع انسانی:

1 _____ 2 _____ 3 _____ 4 _____ 5 _____
 بسیار مشکل بسیار ساده

سیاستها و عملکرد زیست محیطی:

1 _____ 2 _____ 3 _____ 4 _____ 5 _____
 بسیار مشکل بسیار ساده

فعالیت های خریه و عام المنفعه:

1 _____ 2 _____ 3 _____ 4 _____ 5 _____
 بسیار مشکل بسیار ساده

مصرف انرژی:

1 _____ 2 _____ 3 _____ 4 _____ 5 _____
 بسیار مشکل بسیار ساده

اطلاعات کیفی محصول:

1 _____ 2 _____ 3 _____ 4 _____ 5 _____
 بسیار مشکل بسیار ساده

سایر (در صورت کاربرد لطفاً نام برید):

1 _____ 2 _____ 3 _____ 4 _____ 5 _____
 بسیار مشکل بسیار ساده

9- برای هر نوع اطلاعاتی که تا بحال خوانده یا دیده اید اعتبار هر نوع از گزارش های اجتماعی ارائه شده را درجه بندی کنید. (لطفاً دور یک شماره دایره بکشید)

منابع انسانی:

1_____2_____3_____4_____5
بسیار معتبر بی اعتبار

سیاستها و عملکرد زیست محیطی:

1_____2_____3_____4_____5
بسیار معتبر بی اعتبار

فعالیت‌های خربه و عام المنفعه:

1_____2_____3_____4_____5
بسیار معتبر بی اعتبار

مصرف انرژی:

1_____2_____3_____4_____5
بسیار معتبر بی اعتبار

اطلاعات کیفی محصول:

1_____2_____3_____4_____5
بسیار معتبر بی اعتبار

سایر (در صورت کاربرد لطفاً نام ببرد):

1_____2_____3_____4_____5
بسیار معتبر بی اعتبار

10 - آیا فکر می‌کنید که اطلاعات قابل دسترس در مورد فعالیت‌های اجتماعی توسط شرکتها علیرغم اینکه شما آنها را خوانده اید در حال حاضر کافی میباشد؟

بله ___ به سؤال 12 بروید.
خیر ___ به سؤال 11 بروید.

11 - اگر خیر، لطفاً میزان فعلی این نوع گزارش‌های را درجه بندی کنید (لطفاً دور شماره مناسب دایره بکشید)

1 _____ 2 _____ 3 _____ 4 _____ 5 _____
کم بسیار کم

12 - آیا اطلاعات خاصی وجود دارد که شما معتقد هستید باید افشاء شود؟

بله _____ به سؤال 13 بروید.
خیر _____ به سؤال 14 بروید.

13 - اگر بلی، فکر می‌کنید چه نوع اطلاعاتی میبایست افشاء شود؟

14 - فکر می‌کنید اطلاعات فعالیت‌های اجتماعی شرکتها CSR چگونه باید افشاء شود؟ (یک یا چند مورد را انتخاب کنید، در صورت انتخاب بیش از یک مورد لطفاً آنها را از 1 = بیشترین روش مورد استفاده تا کم ترین رتبه بندی کنید.)

- (i) _____ تشریحی/توصیفی
(ii) _____ با اعداد و ارقام پولی یا غیر پولی
(iii) _____ هر دو گزینه فوق
(iv) _____ سایر (لطفاً مشخص کنید)

15 - فکر می‌کنید در کجا باید این اطلاعات افشاء شود؟ (در صورت انتخاب بیش از یک مورد لطفاً آنها را از 1 = بیشترین روش مورد استفاده تا کم ترین رتبه بندی کنید.)

- (i) _____ گزارش‌های سالیانه
(ii) _____ ضمیمه گزارش‌های سالیانه
(iii) _____ تبلیغات یا رسانه
(iv) _____ وب سایت شرکت
(v) _____ سایر (لطفاً مشخص کنید) _____

16 - آیا فکر می کنید برای گزارشگری فعالیتهای اجتماعی بوسیله شرکت، باید استاندارد یا مقررات مربوطه از طرف دولت و یا نهادهای حرفه ایی حسابداری وضع گردد؟

بلی —

خیر —

17 - اگر بلی، لطفاً اهمیت هر یک از منابع دستورالعمل های تولید شده را درجه بندی کنید (لطفاً دور شماره مناسب دایره بکشید)

نهادهای حرفه ایی حسابداری:

1 _____ 2 _____ 3 _____ 4 _____ 5 _____
بی اهمیت پر اهمیت

توسط دولت:

1 _____ 2 _____ 3 _____ 4 _____ 5 _____
بی اهمیت پر اهمیت

18 - لطفاً هرگونه اظهار نظری را که فکر می کنید کمک کننده است بیان نمایید.

قبلاً از همکاری شما سپاسگذارم. منتظر دریافت پاسخ شما هستم.
علی محمد یافتیان
داوطلب دکترای حسابداری

Descriptive statistics for the data used in the regression

	Variables	Mean	Std. Deviation
Independent Variables	EMA	0.39	0.490
	ICD	0.33	0.473
	CSH	0.17	0.382
	Tot-Assets	2345413.71	1.149E7
	ROA	0.4357	0.304180
	Gearing	0.92830	2.444955
Dependent Variables			
	Total CSR Disclosure	1078.15	1034.063
	HR	724.19	661.582
	ENV	62.58	148.194
	Com	42.05	116.794
	EGY	22.45	76.974
	CSP	226.87	459.744

N=103